The Economist

20020511

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Print Edition May 11th 2002

How sick is Europe?

Recent events in Europe have been shocking. But don't exaggerate the consequences ... More on this week's lead article

Previous print editions

May 4th 2002
Apr 27th 2002
Apr 20th 2002
Apr 13th 2002
Apr 6th 2002

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week

Leaders

Europe
How sick is Europe?

AIDS
How to live with it, not die of it

Myanmar
Uncaged but unfree

Israel and Palestine
Wanted: a plan

British broadcasting
Free TV

Trade
Bush the anti-globaliser

Letters

On American elections, Indonesia, France, Canada, Jean-Marie Messier

Special Report

AIDS in southern Africa
Fighting back

United States

Biology and politics
The great cloning debate

Proliferation
Fidel, Jeb, Jimmy and the axis of evil

Enron, Oracle and Gray Davis
Bad news, good news

The civil-rights struggle

Celebrity murderers
A different class of suspect

Single-sex education
Boys will be boys

Converted prisons
A riotous break

Lexington
The golden boy

The Americas

Education in Latin America
Cramming them in

Colombia's conflicts
War crime

Hell's Angels in Canada
Mom's boys

Human rights in Guatemala
Law, or force

Asia

Myanmar
A new page?

South Korea
The president apologises

North Korea
Delayed reaction

Japan

Business

Country managers
From baron to hotelier

Japanese telecoms
Foreign adventures

Merchandising and children's films
The spider's bite

Trouble in California's docks
On the waterfront

Wireless e-mail
Sending a message

Pharmaceuticals in Europe
Just a placebo

Low-cost airlines
Spread your wings

Face value
Selling energy

Special Report

Trade disputes
Dangerous activities

Finance & Economics

Productivity growth
To these, the spoils

Analysts on Wall Street
Sell?

American International Group
Fighting the tape

Peter Bauer

Spanish savings banks
Opening the box

Bankruptcy in Japan
Prize possessions

Stock exchanges in Europe
Swallow me, swallow

Economics focus
Underpinning returns

Science & Technology

Urbanisation
The brown revolution

Urban air pollution
A great leap forward

Books & Arts

Summer operas
Starry, starry nights

Matisse and Picasso
Double vision

High fliers and motherhood
Waaah

America's food industry
Lean on me

Advertisement

Wall-to-wall worries

Microcredit in Bangladesh
Mr Elahi's ray of sunshine

Poverty in India
Trees versus people

Middle East & Africa

Israel, America and Palestine
Terrorism's body-blow at peace

Arabs, America and Palestine
Who'll impose what on whom?

Madagascar's two presidents
Bombing bridges, not building them

Media freedom in Africa
Watch what you say

Europe

Assassination in the Netherlands
The political legacy of Pim Fortuyn

The European Commission
There's a lot of fishy business going on

Ireland's election
Ahern ahead

Germany's pre-electoral politics
Conservatives have ideas too

France's presidential election
Jacques Chirac wins by default

Charlemagne
Jean-Pierre Raffarin, France's new man

Britain

Broadcasting bill
Guess who's coming to dinner

Gibraltar
True Brits

English regional government
Morpeth's grouse

Local election results
A plague on all your houses

Road pricing
Charging by satellite

Digital broadcasting
Used spectrum, anybody?

Parking
Toad strikes back

Bagehot
Time for a little ginger

The riskholder of last resort
Where the buck stops

New essays
Little big voice

Obituary

Barbara Castle

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Economic forecasts

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Top exporters

Emerging-Market Indicators

Overview

Stability index

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classified ads

Jobs

Senior Operations Manager, Financial Markets
Terms of Reference IFC Private Enterprise Partnership Background ....

Business / Consumer

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Property

WORK FROM HOME SALES REP. NEEDED A SALES REP IS NEEDED TO BE WORKING FROM HOME FOR EGOBOLIC TIMBERS INT'L. YOU....

Jobs

Tenure Track Position Available
Assistant Professor of Geography Tenure-track Assistant Professor position, starting....

Tenders

Invitation for Prequalification
Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

Sponsors' feature

About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

May 9th 2002
From The Economist print edition

Middle East turmoil

AP

Ariel Sharon's visit to Washington, DC, in which he held friendly but inconclusive talks with President George Bush, was cut short by a **suicide bomber** who killed 16 Israelis at a snooker hall in a town near Tel Aviv. Hamas claimed responsibility for the attack; Yasser Arafat condemned it and ordered his security forces to prevent such operations. Retaliatory military action against Gaza was expected.

See article: Israel, America and Palestine

The UN General Assembly passed a resolution condemning Israel's military action in the **Jenin** refugee camp and calling on the secretary-general to resurrect his inquiry into the action. It was abandoned because of Israel's refusal to co-operate.

See article: Israel, Palestine and George Bush

After years of squabbling, the permanent members of the UN Security Council agreed on a revised system of sanctions on **Iraq**; however, a vote was delayed after Syria raised objections. Under the new arrangement, only imports on a 160-page list of goods with potential military use will become subject to UN scrutiny.

Marc Ravalomanana was inaugurated as president of **Madagascar**. Supporters of his rival, Didier Ratsiraka, the ex-president who claims to be president still, tightened their economic blockade of the capital, Antananarivo. Four of the country's six provinces, which support Mr Ratsiraka, are threatening to secede.

See article: Madagascar embargoes itself

Forces loyal to Abdullahi Yusuf Ahmed, who claims the presidency of **Puntland**, captured Bossasso, the commercial capital. Puntland declared independence in 1998 from Somalia, a country which has had no central government for a decade. Since November, Mr Yusuf has been at war with his rival for the presidency, Jama Ali Jama, who fled from Bossasso. Mohamed Ibrahim Egal, the president of **Somaliland**, died. His country has been independent from Somalia since 1991 but, like Puntland, is unrecognised.

Death in the Netherlands

Reuters

Pim Fortuyn, the maverick leader of a populist, anti-immigration party whose members may yet hold the balance after a Dutch general election due on May 15th, was shot dead, apparently by a white Dutch animal-rights activist.

See article: Could the assassinated Dutchman, Pim Fortuyn, rise from the dead?

In a rare show of right-left unity, **France's** voters gave 82% support in the second round of the presidential election to the conservative incumbent, Jacques Chirac. The loser—and cause of the unity—was Jean-Marie Le Pen, leader of the extreme-right National Front. Mr Chirac picked Jean-Pierre Raffarin, a senator from an economically liberal party, as prime minister. He

faces a general election next month.

See article: Jacques Chirac wins by default

Britain's foreign minister, Jack Straw, visited **Gibraltar** to sell the idea of a deal with Spain. The Gibraltarians told him to get lost. Spain's prime minister affirmed his country's demand for full, not shared, sovereignty over the British colony.

See article: This sceptred rock

Germany's conservatives produced a manifesto for their candidate, Edmund Stoiber, for the general election due in September. It proposed lower state spending and lower income-tax rates, besides cuts in social-security contributions for employees and other measures to make hiring less risky and job-getting easier.

See article: Germany's pre-electoral politics

In **Austria**, after weeks of controversy and demands for a government ban, far-right students and others demonstrated in Vienna on May 8th, the 57th anniversary of the end in Europe of the second world war, supposedly to commemorate the country's war dead.

Unwanted post

A 21-year-old art student, accused of planting 18 **pipe bombs** across the American mid-west, was arrested in Nevada. The bombs, which injured six people, had been hidden in mailboxes.

The Senate passed a **farm bill** to increase crop and dairy subsidies from October, despite objections from America's trading partners. The Congressional Budget Office said the bill would increase government spending on agriculture by 80%, an extra $82 billion over ten years.

See article: George Bush and trade protection

The Pentagon told the army to come up with alternatives to the $11 billion **Crusader artillery system**, after the defence secretary, Donald Rumsfeld, said that the money would be better spent on more advanced technologies**.**

In a reversal of government policy that has stood for 60 years, the Justice Department told the Supreme Court that the constitution “broadly protects the rights of individuals” to own **firearms**. The government had previously held that the second amendment protected only the right of states to organise militias.

Out of the house

Myanmar's military government freed Aung San Suu Kyi, the opposition leader, after almost 20 months of house arrest. Her release is interpreted as a move by the country's junta to get international sanctions lifted.

See article: Aung san Suu Kyi released in Myanmar

A suicide bomber in **Karachi** killed 15 people, most of them French. Islamic extremists opposed to Pakistan's support for the American-led war on terror were thought to be responsible.

In western **Nepal**, some 350 people were reported killed in heavy fighting. The casualties included Maoist rebels and government soldiers.

In **China's** second air disaster in a month, all 112 passengers and crew died when a China Northern Airlines aircraft crashed near the north-eastern city of Dalian. In April, 129 people died when an Air China aircraft crashed in South Korea.

Slaughter in Colombia

In the worst atrocity in almost two decades in **Colombia**, at least 117 civilians, including 48 children, were killed and more than 100 injured when the church they were sheltering in was struck by a home-made mortar fired by the FARC guerrillas. The massacre happened during fierce fighting between the FARC guerrillas and right-wing paramilitaries in a remote town in the north-west of the country.

See article: Colombia's worsening conflicts

AP

Hugo Banzer, once **Bolivia's** dictator and elected in 1997 as its democrat president, died of a heart attack.

Maurice “Mom” Boucher, a leader of Quebec's **Hell's Angels**, was convicted of the murder of two prison officers in the first of dozens of planned trials which prosecutors hope will break the hold of biker gangs over organised crime in eastern Canada.

See article: Hells Angels on trial in Canada

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

May 9th 2002
From The Economist print edition

EasyJet on the move

EasyJet, a British low-cost airline, was on the verge of snapping up **Go**, a rival that was sold off by British Airways last year. The £400m ($584m) deal would let easyJet swipe the title of Europe's biggest no-frills operation from Ireland's Ryanair. EasyJet's ambition was further evident as it took an option to buy BA's loss-making German subsidiary, **Deutsche BA**, that could cost it up to *euro*46m ($42m).

See article: Europe's low-cost airlines

The disintegration of Kirch Group continued, as **KirchPayTV** filed for bankruptcy a month after Kirchmedia, Kirch's core film- and TV-rights business, went under. However, Premiere, the broadcasting unit of KirchPayTV, continued to operate for the moment.

John Malone's reputation as a wily deal maker suffered. **Liberty Media**, his cable-TV business, agreed to sell stakes in an e-commerce business and a cable-TV outfit to Vivendi Universal, in exchange for 3.6% of Vivendi. This will now cost him around $700m, as the French media giant's shares have plummeted by some 40% since the deal was sealed.

Vivendi Environnement, 63% owned by Vivendi Universal and contributing much profit if little glamour, is to pay £2.1 billion ($3.1 billion) for **Southern Water**. Adding one of Britain's biggest water companies to the three small ones it already has gives Vivendi Environnement some 10% of the British market.

The trial begins

Andersen went on trial, on charges of obstructing justice by deliberately shredding documents about its audit of Enron. The judge, Melinda Harmon, is hoping for a speedy resolution to the case; she has a holiday booked at the end of May.

Meanwhile **Andersen** avoided another court appearance by reaching a preliminary settlement with investors in the Baptist Foundation of Arizona; the auditors had failed to note a pyramid scheme that brought down the investment trust. And KPMG Consulting offered $284m for 23 of Andersen's consulting practices around the world.

Dynegy, one-time rival to and would-be purchaser of Enron, faced formal investigation by America's Securities and Exchange Commission over the accounting treatment of a deal for the supply of natural gas from ABG Gas Supply. Regulators are also investigating whether Dynegy's reporting of large volumes of power trades last year was inflated. The firm's shares fell sharply.

Eliot Spitzer's latest ploy in his campaign against **Merrill Lynch** was a threat from the New York state attorney-general to force senior bank employees to testify in court about misleading investment research. The SEC also unveiled proposed new rules for share analysts: no clear separation between research and other banking services, but more openness and disclosure. More to Merrill Lynch's liking than Mr Spitzer's, some may claim.

See article: Wall Street firms under scrutiny

Research analysts at Goldman Sachs displayed commendable independence by dropping **Vodafone** from the bank's list of recommended shares, despite a close banking relationship between Goldman and the

British mobile-phone giant. Goldman's cooling enthusiasm sent Vodafone's shares down a few more notches; its value has fallen by nearly half since the beginning of the year.

Danish play

Microsoft said that it would pay DKr 11 billion ($1.34 billion) in cash and shares for **Navision**, a Danish business-software company, as part of its efforts to diversify into applications for small and medium-sized companies. These may eventually be offered as subscription services on the Internet as part of Microsoft's ".NET" initiative. Last year Microsoft bought a similar American company, Great Plains.

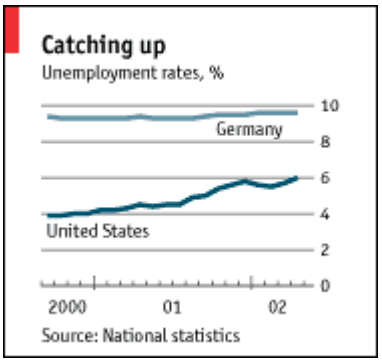
Cisco Systems, the world's leading maker of Internet "backbone" equipment, cheered investors with news that profits in the quarter to the end of April were three times higher than a year ago, at $838m. But revenues were only slightly higher, after a year of cost-cutting. The company's shares zipped up, helping to push the tech-rich Nasdaq stockmarket up by nearly 8%, its biggest one-day gain in over a year.

Novartis, a Swiss drug company, acknowledging the power of the American market, said that it would move its research headquarters to Cambridge, Massachusetts.

Off the job

Productivity in America shot up in the first quarter of 2002 by 8.6% at an annual rate, the biggest leap since 1983. Employees worked longer and harder as unemployment rose. Jobless numbers grew by 0.3 percentage points in April to hit 6%, an eight-year high. **Germany's unemployment** was stuck at 9.6%, despite improving economic signs.

See article: Productivity and profits



Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Europe

How sick is Europe?

May 9th 2002
From The Economist print edition

Recent events in Europe have been shocking. But don't exaggerate the consequences

Get article background

Reuters

IT IS tempting to think that there is something profoundly and newly rotten in Europe. In the past few months, violence across the continent has been perpetrated against synagogues and other Jewish buildings, raising the spectre of anti-Semitism reviving in the continent that spawned it. In a number of apparently civilised countries, such as Austria, Italy and Denmark, political parties hostile to immigrants and in some cases with fascist antecedents now participate in coalition governments or prop them up. Last month this trend seemed to sharpen when Jean-Marie Le Pen, a populist thug, won enough votes in France to knock out the main candidate of the respectable left to reach the final round of the presidential election. And last weekend brought a new shock: Pim Fortuyn, the leader of a far-right party that still has a chance of holding the ring after next week's general election in the Netherlands, was shot dead. Little wonder that many people, connecting the dots, are asking whether violence and racism might become Europe's new norm.

Americans have particular reasons to despair of Europe. As Americans strive to spread their free-market gospel of prosperity and individualistic freedom around the world and to fight the scourge of global terrorism, Europeans often seem singularly unappreciative of those well-intentioned aspirations. Yet now, if this week's assassination of Mr Fortuyn is anything to go by, terrorism looks as if it is rising in Europe too. Two months ago an Italian labour-law professor who was advising his country's government was gunned down.

Not so fast

It is understandable that recent events in Europe should feed such notions. But some of the conclusions being drawn are vastly overblown. The National Front's Jean-Marie Le Pen has, after all, been soundly defeated by Mr Chirac at the polls. In next month's general election (click here and here for articles), his National Front will be lucky to win a handful of seats out of nearly 600 in the National Assembly. By mid-summer, he may well be out of the limelight. As for the hapless Mr Fortuyn, the party that he leaves behind may, in the Dutch electoral system, get as many as a sixth of the votes cast and perhaps elbow its way into a coalition government. But his death, apparently at the hands of a white animal-rights activist (see article), does not seem likely to spark a wave of further violence. The Dutch are numb with shock rather than seething with rage. European politics is not suddenly about to turn bloody.

The rise of racism and the far right needs to be put into context too. Most recent acts of violence against Jews and Jewish buildings have been confined to France and have been committed by young Muslims, mostly of North African origin, who have been angered both by their own failure to advance in a society that often seems unkind to them and by the misfortunes of their co-religionists in Palestine. Europe's new anti-Semitism, such as it is, is not the kind that once infected a swathe of middle-class opinion and politics and helped lead to the calamities of the 1930s and 1940s. It has no chance of poisoning the mainstream of discourse again.

Europe's new anti-Semitism, such as it is, has no chance of poisoning the mainstream of discourse again

Racism among Europe's longer-standing indigenous populations towards newcomers often with darker skins is certainly common and may have become more acute as the numbers swell. That is deplorable but perhaps not surprising—and by no means a purely European phenomenon. Besides, the arguments, even on Europe's far right, vary. Mr Le Pen is the ugly face of extreme nationalism. He spreads hatred. His prescriptions—repatriation, for instance, and a ban on the building of mosques—are crude and cruel. Mr Fortuyn, on the other hand, was demanding a ban on further immigration (with Muslims unpleasantly singled out), a simplistic idea but one shared by many supposedly respectable governments across Europe. He raised serious questions about whether newcomers should be urged to assimilate or be encouraged to cleave to their parents' values, even if some of them are illiberal.

Besides immigration and crime, populists are also tilting against the cosy consensus of political elites

Moreover, hostility to immigration, with its undeniably related problem of crime, is by no means the only vote-gatherer for Europe's far right. Across Europe, populists are tilting against political elites whose cosy consensus is thought to have muffled the voices of ordinary people. However strong the whiff of xenophobia about him, Austria's Jörg Haider won 27% of the vote in his country's last general election, so forcing his party into a ruling coalition, largely because the two main parties of right and left had shared patronage venally for half a century. The rise to power in Italy of a media-owning tycoon, Silvio Berlusconi, was partly due to a popular desire to kick out an apparently rotten old establishment. The end of the cold war and the demise of socialism have seen mainstream parties of right and left converge ever more tightly in the middle ground, often further limiting a sense of choice, especially in the eyes of the have-nots. The near-certainty of coalition governments in countries with electoral systems such as the Dutch one has stiffened such feelings. And it has often led to flabby governments that recoil from making necessarily unpopular choices.

Le Pen, Fortuyn, Perot, Buchanan

Heard it somewhere before? Cries for reform, attacks on the establishment, blaming foreigners: all were part of the brief prominence in American politics of Ross “great sucking sound” Perot and Pat “peasants with pitchforks” Buchanan in 1985-95. As then, there is a further important ingredient in Europe: a feeling of economic weakness that too many politicians seem to lack the guts to address.

In response to such problems, a lot of Europeans feel that too many decisions are being made by remote bureaucrats in Brussels, too few by their local representatives down the road. But the biggest reason why, in the past decade, the American economy has grown more than 60% faster than Western Europe's and why its unemployment rates have been nearly twice as low is that Europe's product and labour markets have been too rigid, its welfare too generous, its social costs too high for would-be entrepreneurs, its governments too scared to liberalise faster.

The irony, perhaps, is that in the two countries where this week's spotlight has been bleakly cast, the economy has fared reasonably well. But not well enough to keep incomes rising and to give people a sense of security. France's has grown strongly in the past five years, although unemployment remains high. If the right does win next month's general election, lucky Mr Chirac has a rare chance of bringing in needed reforms. The Netherlands has one of the best records in Europe. It has a lower unemployment rate than in the United States (albeit with a lot of part-time jobs) as well as sturdy growth. Both countries, of course, have much more generous welfare and public-health systems than the United States, and, for all the blustering of Mr Le Pen and the late Mr Fortuyn, lower rates of violent crime and murder.

Europe has, indeed, had a shameful few weeks. It has problems galore. The frustration expressed against complacent and arrogant elites by the French who voted for Mr Le Pen or by the Dutch who may yet vote for Mr Fortuyn's party is salutary. But Europe is far from irredeemable.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

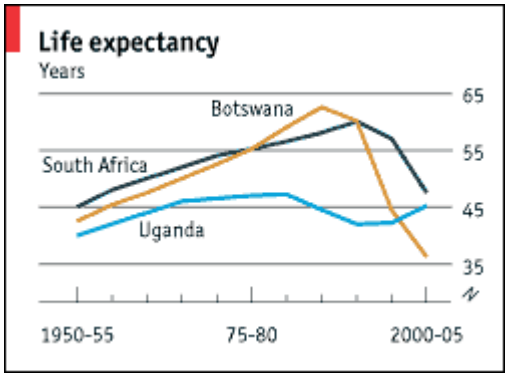
AIDS

How to live with it, not die of it

May 9th 2002
From The Economist print edition

Much more is needed from rich and poor alike if AIDS is not to reverse years of development

Get article background



TIME is supposed to be the great healer. Not for AIDS. For AIDS, time is simply the great killer, as far as most people are concerned anyway. It need not be so. In the rich world, the availability of anti-retroviral drugs means that most people infected by the human immunodeficiency virus (HIV) can lead more-or-less normal lives, for years if not decades. But poor countries cannot afford these drugs. In due course, those of their citizens who are infected simply develop AIDS, and die. In Africa, the continent with the greatest number of sufferers—over 70% of the total—an unimaginable human tragedy is now unfolding. It is a tragedy, moreover, that affects many more than the 28m or so Africans living with the virus. AIDS blights almost every activity of government, every facet of the economy, every aspect of everyone's life. Unchecked, it will wipe out the progress of decades of development.

A few examples from Botswana illustrate the devastation. Twenty years ago, the life expectancy of a Botswanan was well over 60 years; now it is heading below 40. Projections—guesses may be a better word—suggest that by 2010 Botswana will have 32% less economic output than it would have done without AIDS. Through greater spending on the disease and reduced revenues because of it, government expenditure will be cut by a fifth. Within families, each main breadwinner is expected to have to carry four extra dependants. Most poignantly, Botswana will probably have 214,000 orphans by 2010. Some will have been infected at birth. Many may be lucky enough to be looked after by grandparents or other relations. But who will pay the school fees? Who, indeed, will teach in the schools, when 38.5% of adults are HIV-positive?

Governments, companies and organisations of all kinds must turn their attention to the demands of living with, not dying of, AIDS

Botswana is untypical in that its prevalence rate is the highest in the world. But it is also untypical in that it is richer than most African countries. In other words, the outlook is just as grave in at least a dozen other countries, and could become so in many more. Yet not all is hopeless. Uganda has shown how a concerted campaign against AIDS can bring dramatic results. It cut its adult infection rate from 30% in 1992 to about 11% in 2000. And as our report shows, even the countries of southern Africa, which have been hit particularly hard by AIDS, are fighting back, though with few resources and, in South Africa's case, in the face of a dismaying government policy that has only recently been abandoned.

A vast amount remains to be done, especially in Africa, where most politicians are still far too reluctant to confront the realities of the pandemic. The stigma of infection must be tackled. Every minister in every African government could make a start by taking an HIV test and announcing that he had done so. A huge campaign is needed to reduce sexual violence against women, one of the most horrible—but common—ways in which the infection is spread. An equally big campaign is needed to supply condoms and, above all, information about AIDS: the young, who are the most vulnerable, are the most in need of education. And now too governments, companies and organisations of all kinds must turn their attention to the demands of living with, not dying of, AIDS.

Hope for all, even the poorest

This may be where the rich world can help most. The world's 40m HIV sufferers need drugs, not just because they are human beings who deserve treatment for reasons of humanity, but because their early deaths bring huge costs to society, and are avoidable. Anti-retrovirals are becoming both cheaper and easier to administer. Though they bring problems of resistance, it is no longer possible to argue plausibly that they cannot be given to even the poorest Africans. But even at $1 a day, such drugs for, say, the 5m or more South Africans with HIV are expensive; at present only 17,000 get them.

Last year it was agreed at a UN summit to set up a global fund to fight AIDS, tuberculosis and malaria, which Kofi Annan, the UN's secretary-general, hoped would spend $7 billion-10 billion a year. Though far from perfect—complaints of red tape abound—the fund needs much greater support: only $378m has been disbursed. Some of its money could, for instance, go towards buying drugs for use in poor countries. Such countries can now legally make generic drugs themselves, but they are usually forbidden to import them, and not just for bad reasons: it is absurd to expect drug companies to forgo profits from the products they have developed. If they see no commercial benefits in research, they will not invest in it. Yet both a vaccine and better drugs are desperately needed.

Plenty of obstacles lie in the way of fighting AIDS. Resistance to drugs is certainly one of them. But resistance to the proposition that AIDS still needs a colossal commitment by rich and poor alike should not be countenanced. Too many people are dying needlessly, taking too much with them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Myanmar

Uncaged but unfree

May 9th 2002
From The Economist print edition

Aung San Suu Kyi's release is welcome. But Myanmar's generals must be pressed to do more

EPA

Get article background

COULD the generals who misrule Myanmar at last be softening up? On the face of it, there is reason to hope so. This week, they released the world's most famous political prisoner, Aung San Suu Kyi, from the house arrest that has been her lot for eight of the past 13 years (see article). This follows some 18 months of talks between her and them, though neither will say what, if anything, has been agreed.

The generals have plenty of reasons for wishing to be seen to be engaging Miss Suu Kyi, whose National League for Democracy (NLD) won a thumping election victory in 1990 that has never been recognised. Even they cannot fail to care that the country's economy is in ruins, half a generation has missed out on education because the universities have mostly been closed since 1988 for fear of protest, and half a million or more of its 45m people have AIDS: health workers fear an epidemic as bad as any in Africa. One out of three children dies in infancy. Much of the capital, Yangon, is blacked out for much of the time, even though Myanmar has plenty of oil: the oil is piped to Thailand in return for money that is spent on guns. Inflation exceeds 50%. The army is paid in drugs, not cash.

But does the release of Miss Suu Kyi mean that Myanmar is now ready to embrace change? Its generals are past masters at the art of spinning things out. After the 1990 election, for instance, they did nothing so crude as simply to annul the results. Instead, they announced them, but said that, unfortunately, it would not be possible to hand over power to civilians, because a new constitution was needed first. Twelve years on, there is no sign of the said constitution. Nor is this the first time the junta has gone through the motions of talking to Miss Suu Kyi: two meetings were held in 1994 shortly before she was released from her first confinement, but they came to nothing because Miss Suu Kyi was being “unreasonable”—presumably in insisting that the election result should stand.

The same old tricks?

Myanmar's leaders may well be trying exactly the same ruse again, and the danger is that many governments will be happy to fall for it. A chorus of approval of the talks and the release has already come from foreign ministries east and west. That is fine. But it is essential that any relaxation in sanctions must be linked to the only acceptable outcome, which is either a recognition of the 1990 result or, at the least, a timely fresh election in which Miss Suu Kyi and the NLD can compete freely.

One reason why Myanmar has been so difficult to influence has been the willingness of its neighbours to trade with it, arm it, invest in it, and generally keep quiet about its disdain for human rights. China, unsurprisingly, has close ties with its fellow autocracy. To its shame, India, for geopolitical reasons, has been cosying up to the junta as well. In 1997, the Association of South-East Asian Nations dishonoured itself by admitting Myanmar as a member. The country's oil, gas, timber and minerals make it highly attractive to foreign companies, even to the extent of causing some governments that should know better—including Australia's—to press Miss Suu Kyi to be less uncompromising in her dealings with the junta. Recent developments will allow the appeasers of tyranny to claim that engagement is working—which is, of course, exactly what the generals want them to believe. Beware. The only time to relax the pressure is when the generals are unambiguously on their way out. So far, they show no sign of departing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and Palestine

Wanted: a plan

May 9th 2002
From The Economist print edition

George Bush must decide whether to park or drive

Get article background

AP

IF GEORGE BUSH has a coherent plan to sort out the Middle East, he kept it tucked away during Ariel Sharon's visit to Washington this week. Who can blame him? The violent mess Mr Bush inherited from Bill Clinton after the failure of his Camp David summit had “quagmire” stamped all over it. Since then—thanks mostly to the actions of Israelis and Palestinians, not the inaction of the United States—things have got even worse. The Palestine question has degenerated into the grimmest kind of struggle, the sort in which both sides feel that their national survival is at stake, and each shrinks from compromise lest the other construes it as weakness or surrender. To an extent that is rare and frightening even for this long conflict, revenge and bloodlust are displacing rational political calculation. The massacre of 16 Israeli civilians by a Palestinian suicide bomber, at the very moment Mr Sharon and Mr Bush met in Washington, was only the latest example.

In circumstances like these, the rest of the world looks desperately to the superpower to slice through the complexities and impose a solution. And, in fairness, Mr Bush has responded—to a degree. Recognising the danger to America's own interests in the Muslim world, he has endorsed the vision of an independent Palestine. Though “disappointed” with Yasser Arafat, and whatever his private opinion, he has consistently rebuffed Mr Sharon's efforts to brand the Palestinian leader a terrorist who cannot be trusted or negotiated with. He sent Colin Powell, his secretary of state, to see Mr Arafat in Ramallah when Israeli soldiers imprisoned him there. It was the Americans who devised the deal that ended the Ramallah siege, and the deal that may yet end the siege at the Church of the Nativity in Bethlehem. Mr Bush has suggested holding an international peace conference in the summer, and called for the rebuilding and reform of the Palestinian Authority. Now he is sending George Tenet, the head of the CIA, to overhaul what is left of Mr Arafat's security services, in the hope that they might at last be able to prevent terrorist attacks on Israel, as Mr Arafat promised under the Oslo peace accords.

This is hardly inaction. But nor do these improvised bits of firefighting and exhortation add up to a coherent plan. No such plan is liable to emerge until Mr Bush makes a difficult decision: whether to “park” the conflict—ie, aim only to reduce the violence, and share out and spin out the diplomacy—or risk driving forward to a final settlement.

Mr Bush's improvised bits of firefighting and exhortation do not yet add up to a coherent plan

At first glance, the case for parking looks strong. If the enemies could not be reconciled when Israel was ready to withdraw from most of the West Bank, why try now, with an Israeli prime minister who is not ready to uproot a single Jewish settlement, and when killing has hardened hearts all round? The Palestinians say that Mr Bush should just force Israel out, but their own terrorism has pushed American thinking the opposite way: both houses of Congress passed resolutions last week supporting Israel's right to defend itself, as America has since September 11th. After seeing what happened to Mr Clinton, Mr Bush has every reason to doubt Mr Arafat's desire and ability to compromise, and to honour any compromise he made. Indeed, insofar as Mr Bush has a big new idea, it is for America to deal less with Mr Arafat himself and more with friendly Arab regimes—such as those of Egypt, Jordan and Saudi Arabia—that might be able to influence Palestinian behaviour. A spot of parking might usefully lower tempers, and expectations, as well as freeing Mr Bush to concentrate on other matters, such as the removal of Saddam Hussein.

The flaw in the theory is that the condition of the areas Israel ceded to Mr Arafat under Oslo makes parking look even harder than driving forward. Since the *intifada*, the embryonic Palestine has collapsed into a failed non-state, with a smashed economy and broken institutions. Mr Arafat never disarmed the terror groups that are dedicated to destroying the Jewish state: in the recent fighting his own militiamen and policemen fought alongside such groups against the common foe. Against such a background, Mr Bush's hope that the CIA can fashion a Palestinian force willing to take on the suicide bombers will surely fail, in which case the security vacuum will once more be filled by Israel's army and the Palestinian militias, a combustible mixture doomed to blow apart any notion of “parking” anything. At some point, restoring order might require foreign peacekeepers. Right now it requires giving moderate Palestinians some incentive to co-operate, by restoring their belief in the possibility of an end to the occupation. And, much as they despise him, Palestinians know that the only man who can make such a hope credible is George Bush.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

British broadcasting

Free TV

May 9th 2002
From The Economist print edition

A new bill should give Britain one of the world's freest media markets—up to a point

OVER the past decade, much of the world's media business has been swallowed up by seven giant global companies—AOL Time Warner, Disney, News Corporation, Viacom, Sony, Bertelsmann and Vivendi. Four are American, one is Japanese, one German and one French. Given that English is the language of the global media, and that Britain fancies itself as a creative sort of place, the fact that none of these is British offends the British government. That is, in part, what the Communications Bill published on May 7th sets out to remedy.

The British media business is tied down by a mass of regulations on who can own whom and broadcast what. One of the consequences is that ITV, the main commercial broadcaster, is split chiefly into two competing companies. This regulation has both protected rotten management and deprived companies of the economies of scale that would help them expand into foreign markets.

These days, the argument for giving broadcasting companies special protection and responsibilities has weakened, because multi-channel television and the Internet have multiplied the sources of information available to consumers, and at the same time shrunk the broadcasters' share of eyeballs. Given that, and its commendable enthusiasm for competition, Tony Blair's government evidently decided that most of the regulations were doing more harm than good.

The new bill retains some old-style restrictions, which are widely assumed to be tailor-made for Rupert Murdoch. Owners of more than 20% of the national newspaper market will not be allowed to own ITV, though they can—so don't feel too badly about it, Rupert—own Channel 5, a small commercial broadcaster which would serve as a nice free-to-air showcase for Mr Murdoch's BSkyB pay-television channels. But the bill's main force is liberalising. It will bin the split-ownership nonsense and regional sillinesses that currently bug commercial broadcasting, and allow the ITV companies to merge into one manageable, sizeable company. And it will bin the restrictions on non-European companies buying into British radio and television broadcasting, thus giving free rein to foreigners to buy into the British market (see article).

When this bill becomes law, Britain will have one of the freest broadcasting markets in the world. While American companies will be able to snaffle up British companies, no non-American is allowed to buy American broadcasting stations. Similar restrictions apply in France and Australia. Those countries should free up their rules, too, in the interests of their consumers, who will benefit from the resulting flow of money and ideas.

A ready-made global giant

Yet even though the government is making many of the right moves, British broadcasters are not all that well placed to benefit from their new freedoms. For there remains a large oddity in the middle of the British broadcasting business which makes it harder than it otherwise should be for media companies to grow. It's called the BBC.

The BBC, with £2 billion ($3 billion) annually from a tax on television sets and extra recent dollops of money to enable it to conquer the digital universe, is Britain's most-watched broadcaster. It has been

doing tremendously well, of late, beating ITV at its own game of peddling prime-time trash to the masses, overtaking the commercial broadcaster in the ratings for the first time ever.

Whether or not viewers benefit from the BBC's existence is debatable. British people tend to think so; but then every country maintains that it has the best television in the world. Other broadcasters certainly suffer, because they have to compete in the same market against a handsomely subsidised state operation.

There's a simple solution to this problem. The government wants a big British media company to compete with those giants out there. Britain already has a global media brand. It's called the BBC. It hasn't done much to conquer the world market because there are too many restrictions on how it operates, and because state-owned companies anyway aren't much good at that sort of thing. Privatise it, and it would.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

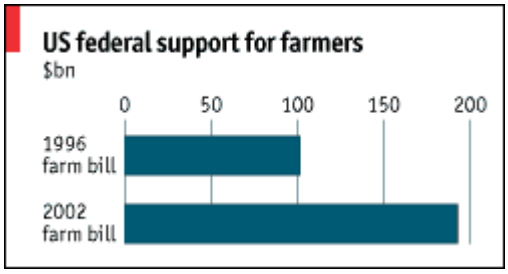
Trade

Bush the anti-globaliser

May 9th 2002
From The Economist print edition

America's monstrous new farm bill could wreck any chance of further trade liberalisation

Get article background



TRADE disputes between America and Europe have become as traditional as turkey and pumpkin pie. For the most part, they chunter along pointlessly, if irritatingly, but without severely damaging the health of the global trading system. Now, however, two newer sources of argument are likely to prove altogether more poisonous. The first is steel, with the Europeans preparing next month to retaliate against America's outrageous imposition of steel tariffs in March. The second is the monstrous farm bill that is about to be signed by George Bush, which will undermine any hopes of liberalising farm trade.

It is all a far cry from the optimistic atmosphere surrounding the launch of a new round of multilateral trade negotiations at Doha last November. Then the talk was of a new period of friendlier transatlantic trade relations, and of the rich countries making a big effort to meet the demands of developing countries, which felt short-changed by the Uruguay round, for further liberalisation in such crucial areas as textiles and agriculture. The Doha round talks have indeed started. But unless the Bush administration puts right the damage being done by America's protectionist steel and farm-support policies, they are unlikely to make much progress (see article).

Until recently, most of the headlines have been about steel. In a direct response to what they see as Mr Bush's politically motivated tariffs—which are seen by the White House as a vote-winner in such crucial swing states as Pennsylvania—the Europeans plan to hit products from other politically tight states such as North Carolina and Florida. The Americans have threatened to retaliate against this retaliation, raising the risk of a genuine trade war over steel. And all for nothing: tariffs are unlikely to help most American steel makers, the more competitive of which are doing quite well without them, and meanwhile the far more numerous steel users are suffering.

Farm follies

Yet even this wholly misguided piece of industrial policy pales beside the greater lunacy of the farm bill that has just emerged from Congress. Hitherto it has been the Americans who have led the charge against agricultural protection in the EU and Japan. It was the Americans who insisted on putting freer trade in agriculture at the heart of the Doha round. The 1996 farm bill sensibly cut subsidies, as well as partly uncoupling those that remained from production, making them less trade-distorting. The declared intention then was to move towards a subsidy-free agriculture, better able to compete in a future world of liberalised farm trade.

The 2002 farm bill throws all of this out of the window. It raises the level of federal subsidies by over 80%—and this at a time when there is fretting galore about the budget deficit. It vastly increases subsidies for soyabeans, wheat and corn. It introduces new subsidies for peanuts, lentils, chickpeas and dairy farms. It even resurrects programmes for honey, wool and mohair that were killed off in 1996. American subsidies per farm may soon reach three or four times European levels. Nor will the much-loved small farmer benefit: three-quarters of the cash will go to the biggest and richest 10% of farmers. And the bill could well breach the limits on farm support set by the Uruguay round in 1994, never mind any further cuts that might have been made in the Doha round.

The real explanation for America's farm idiocy is electoral

So why is Mr Bush, a professed free trader, signing this disgraceful bill? Some in the administration claim to be ramping up so as to ramp down. On this basis, higher tariffs on steel and more subsidies for agriculture should, rather like the arms race against the Soviet Union, force America's recalcitrant trading partners to the negotiating table. But this analogy is unrealistic nonsense. The EU was reluctant even to put agriculture on the table in Doha, and it will surely grasp any opportunity to put off reforms to its Common Agricultural Policy. Many poor countries remain suspicious of further trade liberalisation. Seeing America indulge in an orgy of protection will encourage them not to disarm, but to follow suit.

The real explanation for America's farm idiocy is electoral. Several of the closest Senate races this November are in states such as Iowa, South Dakota and Missouri that have large and powerful farm lobbies. Mr Bush's advisers seem to be calculating that, just as steel tariffs may help him to win West Virginia, Ohio and Pennsylvania in 2004, so signing the farm bill may win him votes in the prairie belt. Mr Bush hailed the farm bill as offering a “generous and reliable safety net” to American farmers. When the result is a failed Doha round, it will be the world economy, not the farmers, that needs a safety net.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

May 9th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Vote of no confidence

SIR – As a former candidate for the United States Congress, I found your article about congressional redistricting right on target ("How to rig an election", April 27th). Gerrymandering is just one example of how democracy, in the form of competitive elections, does not exist in much of America.

The New York State Legislature's handling of reapportionment is a perfect example of rigging elections to benefit incumbents. Gerrymandered district lines were not announced by the end of April; candidates must circulate designating petitions to run for office in early June; and elections are in less than six months. It is impossible for any challenger to raise funds to run a credible race against an incumbent in such a short time. Also, it will be difficult for any non-incumbent to get to know a legislative district in that time.

As a result, most incumbents will run unopposed and, if incumbents have competition, special interests (who want something in return) will contribute lots of money—guaranteeing an easy victory for most incumbents anyway.

Paul Feiner
Greenburgh, New York

SIR – You omit other undemocratic features of the redistricting process besides rampant gerrymandering. First, the decennial census counts residents, not citizens. Areas with large numbers of non-citizens, such as big cities, are therefore seriously over-represented.

However, this is nothing compared with the fact that Congress determines how many seats there are in the House of Representatives. The number has stood at 435 since the 1930s, when the population was less than half its present size. Each census records that every congressional district holds more and more residents (now, roughly 750,000 each), thus becoming less and less representative.

Reform is possible, but don't hold your breath. The constitution works exactly as the Founding Fathers designed it to do: slowly, fitfully and cantankerously.

James Sebrell Farmer
Seattle

SIR – Michigan, Colorado and Iowa already use mathematically defined "compactness" criteria in determining their representational districting. Unfortunately, the application of rigorous statistical-minimisation procedures to the problem of gerrymandering usually results in under-representation of minority groups. This makes the smoothing of ill-shaped districts a political issue, which is where it all started.

Gunnar Hole
Houston

SIR – You suggest that 15 Republicans in one district and 12 in four others equals 65 voters. This is a clear-cut case of election rigging. Two more Republicans would make the sum work.

Tim Dean-Lewis
Reading, Berkshire

Indonesia in good shape

SIR – I find it amazing that a respected publication such as *The Economist* chooses to stoop to "yellow journalism" ("Trading on her father's image", April 13th). Your assertion that Indonesia is more stable than when Megawati Sukarnoputri came to power is correct. One has only to look at the stabilisation of the rupiah and the re-entry of foreign and domestic capital investment into Indonesia to get an idea of the revitalisation taking place. While you disparage her for a recent tour of Asia, you overlook that at the same time the president was "launching her quixotic attempt" to bring peace to the Korean peninsula, some other countries' leaders were hunkered down in their offices, unable to move as a result of international and domestic unrest. You will note that during her trip, Indonesia's currency reached its highest value for the past six months and the stockmarket has broken all kinds of records over the past 12 months. If that is not stability, what is?

As far as the drive against corruption is concerned, the evidence speaks for itself. One only has to peruse legitimate news sources to see that the government of Indonesia is tackling this problem. Thirty years of entrenched behaviour cannot simply be banished with the wave of a hand. The government will not be rushed by anyone, as this could lead precisely to the kind of show-trials that were a feature of the New Order. We are committed to doing the job right this time around.

And when all else fails: beat the dead horse of terrorism in Indonesia. Indonesia is now a country of laws. We do not make arbitrary arrests of our citizens, precisely because this was the policy of the New Order, when thousands were arrested, tortured and incarcerated without judicial proceedings of any sort. We do not make arrests without a preponderance of evidence; exactly the same as in other democracies in the world. Perhaps you could explain why it is that Indonesia should be held to a different standard?

Mahendra Siregar
Expert staff of the minister co-ordinator for economic affairs
Jakarta

Second best for France?

SIR – The French election shows the utter failure of a voting system that starts with a multitude of candidates and ends with a run-off between two who lack widespread support ("France's shame", April 27th). Recent mayoral elections in Los Angeles and San Francisco showed similar failings.

You have previously noted that these problems could be avoided through an instant run-off where voters indicate second preferences and these are reallocated until one candidate gets a clear majority. As you note, the French Academy of Sciences used a similar system for membership elections as long ago as 1770. If these rules had been in place in France, the second preferences of voters for other centrist and left-wing candidates presumably would have provided a majority for the lacklustre Lionel Jospin, with both Jacques Chirac and Jean-Marie Le Pen dispatched to the sidelines.

William Burke
San Francisco

Vanishing skills

SIR – Your article on Canadian immigration did not mention that country's policy to attract skilled immigrants from developing countries ("Please come, we need you", April 13th). The effect upon small countries, such as Guyana with its large diaspora in Canada, has been significant. Skilled workers are becoming increasingly scarce there. The irony is that donor agencies, including the Canadian International Development Agency, stress the importance of capacity building to the long-term development of the country. Luring away Guyana's best and brightest hardly seems to fit into this concept.

William Walker
Georgetown, Guyana

The wealth effect

SIR – You say that in America Jean-Marie Messier, Vivendi Universal's boss, is considered “too French” (“Face value, April 20th). Mr Messier lives in New York where only two things matter: money and power. What is important to New Yorkers about Mr Messier is that he is rich, not where he is from. If he was poor then even being American would not save him from oblivion.

Peter Wolf
Lake Forest, California

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

AIDS in southern Africa

Fighting back

May 9th 2002
From The Economist print edition

AP

Similar problems, different responses in Botswana, Mozambique and South Africa

Get article background

"HOW does the minister feel about dry sex?" Good grief. What sort of question is that? A gulp and a bit of evasiveness could be forgiven even if it were asked in an off-the-record interview by a brash, foot-in-door journalist in some western city. But this is not London or New York or Hamburg. It is Gaborone, the capital of Botswana, a small country where matters sexual are not traditionally regarded as suitable topics for open discussion at formal dinners such as this, and the question is being put by a highly respectable local doctor. What's going on?

A war, is the answer, in which the dinner forms a small propaganda offensive. It is an occasion to tell some visiting foreigners about Botswana's efforts to overcome AIDS and, if that means talking about dry sex over the dessert, so be it. Well then, since the health minister has been asked for her views on that subject, what exactly does she think about it? She's against it. No equivocating, no prevaricating from Joy Phumaphi: she condemns the practice—whereby some women insert objects such as herbs or toothpaste into their vaginas in order to prevent lubrication. Some southern African men like their sex this way; slack vaginas feel tighter. They also bleed more easily, allowing the human immunodeficiency virus (HIV) to penetrate the tissue.

If ministers like Mrs Phumaphi, in the front line of the fight against AIDS, now have to answer questions about dry sex, they also have to answer questions about everything else—medical, cultural, economic and especially sexual—that affects or is affected by the pandemic. They even have to field questions from their ten-year-old children about whether they use condoms. So does almost everyone in public life in Botswana. In war, anything goes.

The prime minister himself, Festus Mogae, presides over every meeting of the National AIDS Council and expects all other members to be in attendance without fail. Every minister starts every speech with a message about AIDS. A National AIDS Co-ordinating Agency mobilises activity on all fronts. Posters proclaim the virtues of condoms or, better, abstinence. A radio drama in the local language, Setswana, spreads information about the affliction. And so on. The aim is an AIDS-free generation by 2016 and meanwhile, says Mrs Phumaphi, "we will fight the virus with a passion that is relentless."

The commitment is admirable, and it has already paid off, in at least one sense. Botswana has been chosen as a partner by the Bill and Melinda Gates Foundation and the Merck Company Foundation in what is said to be the biggest public-private partnership in the world; the two foundations are each contributing $50m over five years and Merck is also donating anti-retroviral medicines for the treatment

of HIV-infected patients. The American government's Centres for Disease Control have sent four professionals to help fight the epidemic. Harvard University is providing assistance with the government's HIV reference laboratory, and other universities and hospitals in Europe and the United States have also pitched in.

What draws these foreign partners to Botswana? They like the strength of the political leadership, they say. They also consider Botswana to be politically stable—it is a multi-party democracy with no history of coups, military rule or war—and it is notably uncorrupt. Oh, yes, one other reason: it has the highest rate of HIV infection in the world.

Such paradoxes seem to beset every aspect of the AIDS pandemic in southern Africa. Why should such an exemplary country have an adult prevalence rate of 38.5%? One answer, apparently, lies in the pattern of life in Botswana, where many people have three or four homes—in a town, in a village, at their cattle post and at their farming lands. With handsome revenues from mining, the government has built good roads, which the Batswana use to travel between their holdings, spreading the deadly HI virus as they go.

Why has such an exemplary country as Botswana come to have the highest rate of HIV infection in the world?

Another answer, however, concerns mining, a source of income not just for Botswana but for people all over southern Africa, who have for generations trudged huge distances to work as migrant labourers in the gold mines of South Africa's Witwatersrand. There they lived in grim, all-male hostels, separated from their wives and families. Life was hard and dangerous, and recreation was provided by booze, buggery and the prostitutes who congregated round the hostels. Sexually transmitted diseases of all kinds were rife. AIDS soon took hold, thereafter to be propagated by returning miners to villages far and wide throughout the region.

Like South Africa's other neighbours, Botswana has long sent men to the gold mines in the south. But these days mining for the Batswana probably means working in the diamond mines at Orapa, Letlhakane and soon Damtshaa within their own country. Although these mines—the first of which opened only 30 years ago, nearly six years after Botswana became independent—have always encouraged families to live together and have never operated a hostel system, AIDS is a huge problem. Over 27% of the employees at the mines registered positive in a voluntary test in 1999, and among those aged 30-34 the rate was nearly 38%. Among people living around the mines, it was even higher.

An equal-opportunity affliction

Not all the blame for AIDS can therefore be attributed to hostels and the migrant-labour system. Indeed, the company that runs the mines, Debswana, a 50-50 joint-venture between Botswana's government and the diamond cartel De Beers, finds that every level of its organisation, including its diamond-cutting business and its headquarters staff in Gaborone, is affected by AIDS. With 18.8% of its highest-paid workers testing positive, “it is an equal-opportunity affliction,” says Tsetsele Fantan, Debswana's main AIDS warrior.

Thanks largely to the vision and persistence of Mrs Fantan, and to an enlightened managing director, Debswana has now become something of a model among companies in the fight against AIDS. Maybe it had no choice: it reckoned that if it did nothing, its mines would go the way of Zambia's, which have to train four people for each skilled job in the knowledge that three will die. Even in 1997 the annual cost of AIDS per employee in the Botswana Diamond Valuing Company was calculated to be $237.

For whatever reason, Debswana now fights AIDS on every front. It operates a policy of no discrimination, no compulsory testing (but much encouragement to “know your status” through free voluntary tests), and a huge education programme. Free condoms are available at every turn, not just in loos but in offices and workrooms. The company is developing an AIDS competence test for all its managers, and volunteers among the staff take part in “peer education” in the workplace. No company can tender for business with Debswana unless it has an HIV policy.

Debswana runs two hospitals for its 6,196 workers. More remarkable, it also pays 90% of the cost of anti-retroviral treatment for its employees who are not covered by a medical-insurance plan. Indeed, it will also pay for the same treatment for a wife or husband. Nearly 100 people have signed up so far; another 100 are expected by year's end. Early results show that 74% of those taking part have no detectable viral load in their blood, indicating that the drugs are keeping the HI virus at bay and enabling

the infected workers to lead pretty normal lives.

It is difficult to say that Botswana is lucky. Some 280,000 of its people are now living with HIV, about 66,000 children have been orphaned by AIDS and life expectancy is set to drop, it is said, from 64 in 1998 to 42 in 2010. Yet Botswana is at least a moderately rich country by African standards, and its government is plainly determined to get the better of AIDS. Moreover, for those already infected, life is not quite hopeless: since the beginning of this year free anti-retroviral therapy has been, in theory, available to all who need it.

Over to the east, in Mozambique, where the life expectancy has been below 40 for three years, the outlook is infinitely bleaker. True, if you live in the capital, Maputo, and can get to the Maio health centre, which opened last month, you can be tested free, unless you can afford the $1 charge, in which case you are asked to pay. The results come in 15 minutes and, if you are HIV-positive, as 56% of those who come are, you will also get free counselling—but maybe not much else. The government would like to introduce an anti-retroviral programme, but it cannot afford to. The cheapest course of anti-retrovirals— generics from India—costs some $200 a month, explains the French doctor running the AIDS unit at the Central Hospital, and resources do not stretch to that. Some 45% of the patients at this, the country's only receiving hospital, are HIV-positive.

Finding the $6.2m needed for condoms this year may be difficult, too. Mozambique's defence ministry, perhaps over-estimating the vigour of its 11,000 or so active recruits, says it alone needs 80m condoms. Admittedly, the government does seem able to pay for an executive jet for President Joaquim Chissano, from which he could be seen stepping out on to a red carpet, flanked by pot plants, shortly after dawn at the capital's empty airport the other day. But annual spending on health is only $8.84 for each Mozambican, and of that only $1.97 is spent in the public sector. That does not allow much for the campaign being organised by Francisco Songane, the health minister, and the country's AIDS council, headed by Janet Mondlane. She must do her work—supervising or promoting research, education, prevention, testing, counselling, treatment and so on—with a staff of five.

Particular efforts are made to reach children aged ten to 14. This age group is largely unaffected by AIDS (unless its members are among the country's 180,000 AIDS orphans), since they were born before the plague arrived, so were not infected at birth, and are not yet sexually active. But they are hard to reach, says Mrs Mondlane; 40% of Mozambique's children do not go to school and their parents find it difficult to talk to them about sex. So do most public figures. Even ministers are loth to say they have taken a test. Rarely, if ever, does anyone famous admit to being HIV-positive.

Apartheid's awful legacy

AIDS may have arrived in Mozambique from the north, but it has certainly been spread, as in Botswana, by miners from South Africa. A typical pattern is as follows. One of southern Mozambique's 40,000 migrants to the Rand comes home on leave. He may have been infected by a prostitute (surveys suggest 80% of these are HIV-positive), or perhaps by a local girl in a nearby township with whom he has been having a longer-standing affair (60%). He probably knows about condoms; indeed, they are generally dished out free at the mine. But with his township girl he does not use one, nor with his wife. She then becomes infected. In due course, a child is born, who is probably infected at birth or, if not, through breast-feeding.

The father is usually the first to die. Then, in Mozambique and Zambia, the father's brother will often step in to help look after the children. He will, by tradition, take the mother as a second wife. He will then be infected too. In due course, she will die. Before then perhaps, her mother will find herself looking after an entire family of sick children and grandchildren. In South Africa, an old-age pension is available to the elderly and a disability pension now covers AIDS sufferers. There and elsewhere miners and their widows are usually, in theory, entitled to pensions. But bureaucracy or corruption often means nothing is paid. And in Mozambique at least, the state provides no pensions of any kind. The social-security system is the family, and this is now in ruins.

It could be said, indeed, that it was in ruins at the outset. The problem in southern Africa arises, at least in part, from a breakdown of the family structure. In many places men used to be polygamous but faithful, albeit to several wives. In northern Mozambique, which is much more Muslim than other parts of the country, this is still typical. It almost certainly contributes to the much lower prevalence of HIV in the north. In most places, however, monogamy now supposedly obtains, though men persist in having several sexual partners. Since they marry only one (at most), the other women they sleep with must make ends meet as best they can. Survey after survey suggests that women either willingly sell themselves to men, often for trifles such as a lift or a small present, or find themselves persuaded or suborned into having sex. Many are raped.

The most vulnerable are the very young. They are frequently made to have sex under duress with older men. Sometimes such sugar daddies, as they are known, may even be teachers and their victims their pupils. All this helps to explain why the rate of HIV infection among girls is everywhere so much higher than among boys. In Mozambique, for instance, among those aged 15-29, the rate for girls is four times higher. In a recent survey there only 7% of girls and 6% of boys said they had used a condom on the first occasion they had had sex.

Blame some of this on poverty. Blame some on modernity. Blame much of it on apartheid, a brutal system in itself that deliberately destroyed the African family by emasculating men (always called “boys”) and separating them from their wives, and then spread its destruction far beyond South Africa's borders through the migrant-labour system of the mines. Yet the high prevalence rates among the workers in Botswana's civilised mines suggests that poverty and apartheid cannot be held responsible for the entire phenomenon.

EPA

Hope in small packages

Emerging slowly from denial

Blame, therefore, if you dare, promiscuity too. President Thabo Mbeki of South Africa, now seems to. Two weeks ago, he said that “You can't be going around having hugely promiscuous sex all over the place and hope that you won't be affected by something or the other.” Yet only last October he was singing a different song. “Convinced that we are but natural-born, promiscuous carriers of germs, unique in the world,” he sardonically remarked, some “who consider themselves to be our leaders...proclaim that our continent is doomed to an inevitable mortal end because of our unconquerable devotion to the sin of lust.”

Mr Mbeki's new line is part of an apparent recantation that centres on the use of anti-retroviral drugs, both for the treatment of HIV sufferers and for the reduction of the transmission of the virus from mother to child during childbirth. Official policy towards this had been rooted in Mr Mbeki's bizarre views about AIDS, which were reflected as recently as March in an extraordinary document produced by his party. Entitled “Castro Hlongwane, Caravans, Cats, Geese, Foot & Mouth and Statistics”, this 114-page ramble described as “demeaning” and “insulting” the suggestion that multiple sexual relationships and rape contributed to the spread of AIDS.

Mr Mbeki's conversion to reality, if such it is, is welcome news to all those in South Africa who have been struggling, like their counterparts to the north, to defeat AIDS. South Africa has more HIV sufferers than any other country. It could, and should, have been in the forefront of the battle. It could have had the help that Botswana has been given by foreign foundations and universities. It could, above all, have saved thousands of its own people from some of the misery they have endured while their president has been in contorted denial about AIDS.

Fortunately, many brave people have stood up for sanity in the face of official hostility. Among the shacks of Khayelitsha, outside Cape Town, for instance, Médecins Sans Frontières has for six months been treating patients with Brazilian anti-retrovirals. Though the regulatory authorities have cleared these generic drugs, it is commercially illegal to use them—and it is not long since the ruling party's spokesman described importing them as opening the door to biological warfare. In a small way, the project has already shown that even in a shanty-town such as this it is feasible to treat patients with anti-retrovirals, and cheaply: the drugs cost $1.55 per patient per day, and the price would fall if they were locally made.

All over South Africa, individuals and organisations are doing their bit in the struggle against AIDS. Down the road, the Red Cross runs a project to bring care into the homes of HIV sufferers. It has now trained 400 volunteers in this task, many of them themselves infected with the virus. Farther north, in KwaZulu-Natal, South Africa's most afflicted province, Murchison Hospital runs a model programme to reduce the chances of mother-to-child transmission of HIV, aided by the dedicated staff of the South Coast Hospice who give hope and practical help at home to those already infected. In Soweto, Johannesburg's giant township, Mama Mabuza gives encouragement to patients at Chris Hani Baragwanath Hospital, not least by leading them in inspirational song. Throughout the country, loveLife, the world's biggest prevention campaign for youth, spreads the gospel of safe sex, as well as offering advice through a helpline.

Nor is the government idle. Even before its U-turn on retrovirals, it was running a huge programme to reduce mother-to-child transmission. This year's budget almost triples (to 1 billion rand, $95m) the amount to be spent on AIDS, and its efforts to find a vaccine command wide respect.

But the task ahead is formidable. About 5m South Africans are living with HIV and, at the current rate of infection, about half the country's teenagers under 15 can expect to contract it. By 2005 South Africa is likely to have about 1m orphans. If AIDS is to be defeated, war must be waged against poverty, ignorance, stigmatisation, violence and promiscuity. A start has been made. Far more remains to be done.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Biology and politics

The great cloning debate

May 9th 2002 | WASHINGTON, DC
From The Economist print edition

A guide to a battlefield that crosses parties, faiths and ideologies

Get article background

SOMETIME this month the Senate will vote on the Human Cloning Prohibition Act. The bill would make cloning human cells a federal crime, punishable by up to ten years in jail and fines of $1m. It would ban not just baby cloning (that is, transplanting a cloned embryo into a woman's womb), but therapeutic cloning as well (embryo cloning in the hope of curing genetic diseases such as diabetes).

Supporters of the bill, sponsored by Senators Sam Brownback and Mary Landrieu, say the debate will be the first opportunity for Congress to regulate the hard ethical dilemmas raised by biomedical advances. (Last year's narrower debate over the related subject of stem-cell research ended in George Bush deciding that it could get government money.) The House of Representatives passed a version of the Senate cloning bill last July. Mr Bush has said he will sign the ban if it passes.

Opponents view the bill as an attack on basic science. They back a rival measure, sponsored by Senators Edward Kennedy and Arlen Specter, to ban baby cloning but permit the therapeutic kind. This will be debated at the same time.

Unsurprisingly, the debate has been dominated by the extremes. Francis Fukuyama, a writer and critic of human cloning, complains that opposition to the Senate ban comes from an unholy alliance of anything-goes libertarians and left-wingers who want to perfect human nature. But a similar charge could be levied against the banners, who include both the religious right and left-wing Luddites. There are five basic arguments to ban it.

The most basic of all is that it involves **killing a potential human being**. In cloning, the nucleus of an ordinary cell, such as skin or muscle, is placed in an egg from which the nucleus has been removed. It is stimulated in the hope that the cell can then be reprogrammed and develop into an embryo, from which stem cells (which can turn themselves into any sort of cell) can be removed. Because the egg has had its nucleus removed, critics say that all cloning involves the destruction of potential human beings. Mr Bush has argued that it “would contradict the most fundamental principle of medical ethics, that no human life should be exploited or extinguished for the benefit of another.”

This view has decisive moral force for those who believe it (often those who also oppose abortion). The trouble is that not everyone believes it.

The other arguments begin with the **slippery slope**. Legal therapeutic cloning, argue some critics, would produce stockpiles of cloned embryos for research. Once that happens, it will be virtually impossible to control how the embryos are used. That would make it impossible to enforce a ban on baby cloning.

Other critics cite the **precautionary principle**. In the realm of genetics, it is far better to be safe than sorry. Senator Landrieu, a supporter of abortion choice, argues that cloning is too unreliable. In animal experiments, fewer than 5% of cloned, implanted embryos produce a healthy birth. Until it improves, that success rate necessitates a ban. Ms Landrieu does not want to ban cloning research in order to limit medical knowledge. Rather, she says, “there are safer, less worrisome means to the same end”—notably stem-cell research. She denies her bill is anti-research.

By contrast, people like Leon Kass, the chairman of the president's advisory council on bioethics, object to cloning precisely because of the medical advances it implies. They see cloning as a route towards a **Brave New World** of human genetic engineering. They object, in Dr Kass's words, to "the alteration...enhancement [and] wholesale redesign" of human nature itself. They paint scary pictures of society growing humans for spare body parts or as custom-designed children.

This "wisdom of repugnance", as Dr Kass likes to see it, has been embraced by both conservatives and liberals. From the right, Bill Kristol, the editor of the *Weekly Standard*, worries that government oversight of the health-care system is likely to grow, so human cloning must be banned now to prevent state-mandated eugenics in the future. From a more liberal standpoint, Mr Fukuyama worries about equality if inequality is designed into people's genes. If an ordinary child and a genetically enhanced one are competing for the same liver transplant, who gets it?

Many of these objections could also be raised against stem-cell research. The last argument, specific to cloning, is the spectre of a vast **embryo industry**. Therapeutic cloning requires large numbers of eggs. On one estimate, you might need eggs from 80m women just to treat American diabetics alone. So cloning, argues Charles Krauthammer, a columnist and psychiatrist, "means the routinisation, the commercialisation, the commodification of the human embyro." This fear resonates not just with the Christian right but also with the feminist left, which worries that women will be sucked into the embyro business unwillingly.

The cloners' charter

The debate on cloning has mostly been defined by those who oppose it. But supporters have at least six basic arguments.

First, they insist that an unimplanted ball of cells is **not a person**. Some argue it is even less of a potential person than a stem cell derived from in-vitro fertilisation, since cloning uses unfertilised eggs. Michael Gazzaniga, a member of Mr Bush's advisory panel on bioethics, says the cloned clump of cells "has no nervous system and is not sentient in any way. It has no trajectory to becoming a human being; it will never be implanted in a woman's uterus. What it probably does have is the potential for the cure of diseases affecting millions of people."

Those **potential benefits** are huge. The National Academy of Sciences estimates that 100m Americans could benefit from stem-cell therapies. Cloning, they claim, is a better technology for harvesting stem cells because it could mitigate problems of tissue rejection, since stem cells are cloned from the patient's own body.

Next, the **slippery slope is a myth**. Charles Murtaugh, a researcher at Harvard University, points out that there is already a huge supply of human eggs that could easily move on to a black market. Allowing therapeutic cloning would make little difference to that. And he argues that a ban on baby cloning would be enforceable, if only because the procedure is so unreliable. "For every five successfully cloned babies, produced by an underground lab, some 95 women will suffer spontaneous abortions and miscarriages. In a free country like ours, it is impossible to imagine that none of those women would go to the press."

By contrast, a ban on therapeutic cloning **would be impractical**. The practice is legal in other countries. The Brownback-Landrieu bill makes it illegal for Americans to import or benefit from drugs produced by cloning abroad. But would the FBI really arrest a patient with Parkinson's who goes abroad and is cured?

The only immediate effect of a ban, many scientists say, will be a **talent drain**. The Coalition for the Advancement of Medical Research, an umbrella group for medical firms, universities and others, claims the bill will stop the best and brightest from entering the field in the United States. CAMR notes that one renowned diabetes researcher has already left for Britain, ostensibly because of the mere threat of a ban.

At heart, therapeutic cloning, argue its supporters, should be treated as **innocent until proven guilty**. Bad institutions and bad laws, not technologies, produce Brave New Worlds. Test-tube babies, they point out, raised comparable concerns when they were first conceived. Eugene Volokh, a professor at the UCLA School of Law, puts it this way: "Scientists should generally have the freedom to experiment, people should generally have the freedom to have important life-saving technologies, and parents should generally have the freedom to make their children's lives better, unless [cloning is shown to] cause serious, tangible harm." Even then, lawmakers should seek the least restrictive ways of avoiding that harm. An outright ban, he says, does not meet that standard.

Faced with this balance of argument, the 100 senators are divided. To pass a bill requires not 51 votes, but 60, to override a filibuster. At the moment, supporters of neither the Kennedy-Specter nor the Brownback-Landrieu bill can muster 60 votes. The result may be a possible compromise putting a two-year moratorium on every sort of cloning. But the arguments will go on.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Proliferation

Fidel, Jeb, Jimmy and the axis of evil

May 9th 2002
From The Economist print edition

Cuba, Libya and Syria join the list of outed rogues

Reuters

If only he were flagging

THE list of rogue countries in America's sights is growing longer almost by the week. On May 6th the State Department's chief officer on proliferation, John Bolton, mentioned three more lying somewhere beyond the “axis of evil” (Iraq, Iran and North Korea): Libya, Syria and Cuba. The new names are not, in fact, new, having cropped up in State Department reports for some years. Syria and Libya were publicly named (in accordance with America's new policy of naming and shaming all states that may be trying to get, make or help make weapons of mass destruction) by Mr Bolton in November. But Cuba is new to the list of publicly outed rogues.

Its inclusion may seem suspicious to some. America's views of the perniciousness of Cuba, a tiny and struggling place, have long seemed misguided. The trade embargo, in place now for 42 years, is the best excuse Cubans have for demonising America and idolising Fidel Castro, the petty tyrant who rules them. Does the State Department truly have evidence that Cuba belongs so high on the rogues list, or is it merely pleasing the Cuban exiles in Florida, where Jeb Bush is running for re-election?

The answer seems to be that it has evidence enough. Over recent years, Cuba has made a huge investment in biotechnology and has developed, among other things, a comprehensive and widely praised immunisation programme. Work on vaccines requires viruses to develop them; and though much of what is happening in Cuban labs may be strictly for medical purposes, Mr Bolton is worried about the biological agents being developed there, and about Cuba's export of “dual-use” biotechnology to other rogue states. Officials will not say what is being made exactly, but anthrax has been mentioned. Nor will they say which countries are being supplied, but Mr Bolton drew attention to Mr Castro's visits last year to Iran, Syria and Libya.

Mr Bolton's accusation does not seem to have stopped Jimmy Carter visiting the island this weekend. And though, assuming that Mr Castro carries on regardless, Cuba can now expect to become one of America's “targets”, that will be nothing new. The only real results: Mr Castro should become a little more popular in Havana, and Jeb Bush slightly more popular in Miami.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Enron, Oracle and Gray Davis

Bad news, good news

May 9th 2002 | SAN FRANCISCO
From The Economist print edition

Corporate entanglements embarrass both sides of the governor's race

Get article background

FOR Gray Davis, the governor of California, there have been two kinds of company. One kind, the good sort, hailed from California (preferably from Silicon Valley), contributed to his campaign chest, burnished his image as a moderate pro-business Democrat and didn't draw attention to itself. The other kind was an out-of-state power company, of the sort that caused, in his view at least, California's electricity crisis last year.

Now this distinction is being tested. Mr Davis is still widely expected to win in November, when he runs for re-election against Bill Simon, the Republican candidate. But their struggle is currently focused on the state's dealings with two companies—Oracle, California's largest software firm and a generous campaign contributor to Mr Davis, and Enron, the now bankrupt energy-trading giant.

Oracle is the embarrassing one for Mr Davis. The California legislature is investigating a contract signed between the software firm and the state's information-technology department in May last year and approved by the governor's office. The contract was for $95m to provide database software and support over ten years. Logicon, a consultancy division of Northrop Grumman, an aerospace firm based in southern California, told the department that the deal would save California $111m.

The state auditor, however, reckons that the deal would in fact cost the state an extra $41m, partly because it provides much more software than is actually needed. The deal covers 270,000 users, but there are only 234,000 state employees. Only five of the 127 government departments consulted by the auditor said they wanted Oracle software. Worse, it has emerged that Logicon was under contract to Oracle and stood to benefit if the deal went through; and that an Oracle lobbyist gave a $25,000 cheque to Mr Davis's campaign just as the contract was being signed.

Heads have already rolled—three so far among Mr Davis's staff. Oracle and Logicon have both said they will hand back the money. Previously seen as proof of his moderation, Mr Davis's close ties to business are one reason why Californians are suspicious of him: the latest Field poll shows that 50% of likely voters regard Mr Davis unfavourably, and only 39% favourably. The problem for the Republicans is that they are even less liked: the same poll showed Mr Davis clobbering Mr Simon by 43% to 29%. And now, to the Republicans' fury, the topic is changing to Enron.

On May 6th the Federal Energy Regulatory Commission released documents passed to it by lawyers for Enron's former energy-trading group. Several internal memoranda describe in detail strategies used by the traders to manipulate the markets in which California bought electricity during the crisis. The tricks, which were given sinister names like “Death Star”, included arranging power sales to flow in opposite directions so that Enron could collect the fees for moving electricity without actually doing it. Many such tricks drove up the price of power.

Short of revealing Mr Simon as Enron's secret financial adviser, the memos could not have been more helpful to Mr Davis. They give some backing to his contention that the state's electricity crisis was the product of deliberate scheming by Enron and other suppliers. They bolster the lawsuits he has launched on the state's behalf against the power firms. They deflect attention from the large amounts of money he paid to “nationalise” the state's grid (which has left the state with a $17.5 billion budget deficit).

Mr Simon, already under fire for being a cultural conservative, is now in a pickle. Electricity remains Mr Davis's weak spot. But Enron is closely associated both with the Bush White House and with the

Republicans' alleged enthusiasm for energy deregulation, a policy which is widely (though wrongly) held by Californian voters to have caused the electricity mess in the first place. It is not surprising that Mr Simon would rather change the subject back to Oracle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The civil-rights struggle

May 9th 2002
From The Economist print edition

“The past isn't dead,” said William Faulkner, speaking of the Deep South. “It isn't even past.” Bobby Frank Cherry, a 72-year-old former Ku Klux Klansman, now has occasion to reflect upon that perception. This week jury selection began in Birmingham, Alabama, for a trial in which Mr Cherry will stand accused of helping a group of fellow racists to plant a bomb outside the 16th Street Baptist Church in 1963. The explosion, one of the ugliest scenes in the civil-rights struggle, killed four black girls aged between 11 and 14. Though the FBI fingered the men responsible, it wasn't until the late 1970s that charges were pressed. Mr Cherry, who continues to profess his innocence, is the last living suspect to face trial.

AP

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Celebrity murderers

A different class of suspect

May 9th 2002 | NORWALK, CONNECTICUT
From The Economist print edition

Courtroom drama, New England-style

IT'S hard to look at Michael Skakel in a courtroom today and imagine what he was like in 1975. The troubled, rich teenager, menacing and wild, has turned into a puffy-cheeked, unemployed divorcee.

It has been 27 years since this cousin of the Kennedys was first linked to the murder of Martha Moxley, a pretty 15-year-old, bludgeoned to death with a golf club in a small town in Connecticut. The unsolved case came to seem a classic example of how the well-connected could supposedly live beyond the law. But now Mr Skakel is on trial for murder.

Like the girl he is alleged to have killed, Mr Skakel, a nephew of Ethel Kennedy, was 15 in 1975. The police traced the murder weapon to the Skakel home in Greenwich, but botched the investigation. Mr Skakel maintained that he couldn't have done it—a new version of his story is that he was busy masturbating in a tree (just like any other teenage male) at the time the murder was supposed to have happened. But he is said to have confessed committing the crime to several people since.

For years the Moxley family fought to keep the case alive. They were assisted by two writers, Dominick Dunne, who published a novel based on the murder, and Mark Fuhrman, a former Los Angeles detective, whose book on the case helped revive his own career, which had been tarnished by his role in the O.J. Simpson case. Mr Skakel was finally indicted in 2000.

Some have billed this month's trial as the east coast's answer to California's O.J. circus. But so far the mood in the low-ceilinged Connecticut courtroom has been sombre and decorous. Reporters and camera crews wait patiently outside; the witnesses are reserved. Moxley's mother told the court she didn't want to point at the defendant, since that would be impolite.

When the lawyers gave their opening statements this week, there were no famous Kennedys to be seen. Instead, the jury was shown grisly pictures of the murder scene, and got a glimpse of how tough it will be to try a 27-year-old case. Mr Skakel's defenders will surely take advantage of the prosecution's failure to pinpoint the precise time of Moxley's death. Defence lawyers, meanwhile, hope to implicate the Skakels' former live-in tutor, who now has immunity from prosecution.

The defence has also suggested that Mr Skakel is a victim of his own notoriety. Witnesses, they say, are emerging only because “they want to be part of the show”. Even a sub-O.J. courtroom drama is something. And a reason, perhaps, for Mr Skakel to wish his family wasn't so famous.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Single-sex education

Boys will be boys

May 9th 2002 | NEW YORK
From The Economist print edition

An idea that may be worth trying

IT IS not for nothing that the phrase “separate but equal” rings alarm bells for many American women. For nearly a century, federally condoned bigotry knew no finer name: girls were separated from boys and dumped in schools better equipped for needlework than for higher mathematics. Nowadays, the educational rights of girls have improved considerably—so much so, in fact, that people are thinking about separating the sexes again, this time by choice.

On May 8th, as part of George Bush's proposals for school reform, the Department of Education released a “notice of intent to regulate”, indicating that it will allow public schools to offer same-sex classes. There are currently only 11 single-sex public schools in the country. The idea has been viewed as dangerous ever since 1972, when Congress formally banned sex discrimination in schools. Although the law—known as Title IX—did not ban same-sex schools, most schools have worried that they would get sued if they tried it.

The new guidelines will encourage the schools to experiment more with same-sex classes, and then possibly pave the way for more same-sex schools. Title IX remains a great totem of the left. One sign of change is that a bevy of women senators from both parties are in favour. One prominent backer is that bastion of feminism, Hillary Clinton; though it is said that she only supports single-sex schooling because it may make public schools better, and stop parents fleeing (vouchers in hand) for the private sector.

Single-sex schools flourish in the private sector, and students who attend them do better than average in tests. That could be because most are in the private sector. But their supporters claim that students work harder when they are free of the distractions of trying to impress, put down or seduce the opposite sex. It is also easier to abandon gender stereotypes: girls in all-girl schools are more likely to study maths and science, boys in all-boy schools become more involved in theatre. Dr Leonard Sax, the founder of the National Association for the Advancement of Single Sex Public Education, even claims a neurological reason for his cause: girls and boys mature at different rates, so they need different teaching methods.

The arguments against single-sex education come primarily from civil-rights and women's groups who oppose publicly-funded segregation on principle. They fear that gender stereotyping will increase. A report by the Ford Foundation lambasted a Californian experiment in single-sex schooling for problem students in 1998 for sustaining certain “gendered perceptions” and for lacking a “gender equity-driven agenda”—wording which says more about the authors' education than that of the pupils concerned.

With enemies such as these, single-sex schooling is hard not to love. Like another controversial idea, school vouchers, it will hardly solve all America's education problems. But it is surely worth a go.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Converted prisons

A riotous break

May 9th 2002 | MOUNDSVILLE, WEST VIRGINIA
From The Economist print edition

Old Sparky's this way; the gift shop's over there on the right

Why even think about Disneyland?

THIS week Moundsville prison, in West Virginia, hosted a three-day riot. “You have hostage situations, cell extractions, getaway cars stopped by road spikes,” enthuses Paul Kirby, one of the organisers. In all, some 1,200 people from 15 states, together with observers from Canada, Japan and Britain, took part.

Moundsville, a neo-Gothic structure built in the 1860s, stopped holding real prisoners in 1995. Now it is home to the National Corrections and Law Enforcement Training and Technology Centre, which focuses on training prison guards. It also supervises courses in various “less-than-lethal” correctional technologies. But its other big role is as a tourist attraction. Last year, 32,000 people filed past its displays of homemade “shanks” (weapons) and learnt about its dramatic escapes, prison rebellions and executions. The prison (slogan: “Do Hard Time”) has also made much of its spooky look: a special Halloween event attracted 11,000 parents and children last year. This year it is planning an evening for paranormalists who wish to commune with the jail's restless spirits. And there is, of course, the riot.

Moundsville's strange reincarnation is actually fairly typical. Even while America is struggling to house its growing prison population (which has quadrupled over the past two decades), states are being forced to decommission old prisons. Rather than knocking them down, they are looking for ways to reuse them.

The Alcatraz route—tourism—is surprisingly popular. The Eastern State Penitentiary in Philadelphia, a model progressive reformatory when it was built in 1829, has run public tours since it was turned over to the city in the 1980s. The Ohio State Reformatory in Mansfield, which was closed in 1990, has also traded on its use as a backdrop for movies (“The Shawshank Redemption,” “Air Force One” and “Tango and Cash”) to lure in punters.

Now the phenomenon seems to be spreading into leisure. Last November the final 27 prisoners left Lorton Reformatory, a 3,500-acre complex in Fairfax, Virginia; now the sprawling prison, which once held 12,000 inmates, is supposed to be turned into homes, schools, parks and even a golf course. There is talk of the Joliet Correctional Centre, 44 miles (71km) south of Chicago, being made over as a casino.

Smaller jails are being converted too. One in Williamsport, Pennsylvania, has become an arts-and-crafts centre. Another in Bluefield, West Virginia, is now a science centre for children, complete with rooms called the “Photo-Cell”, “Brain-Cell” and “Foss-Cell”. But perhaps the unlikeliest success story is the Jail House Inn in Preston, Minnesota. The inn's highlight is a cell block that features original bars and metal walls from 1906, as well as a jail-style wash basin and toilet. The block can accommodate a family of four. Parents of America, there is the answer to your problems.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The golden boy

May 9th 2002
From The Economist print edition

Democrats are swooning over John Edwards. What a pity that his philosophy is so out of date

THIS is a miserable time to be a Democrat. The war on terrorism has dulled memories of the “stolen” election and turned George Bush, a man the party once dismissed as a brain-dead frat boy, into a symbol of national resolve. But you only have to mention John Edwards to dispel the party's gloom. The junior senator for North Carolina is being hailed as JFK and the young Bill Clinton rolled into one. His face graces the cover of *US News & World Report*. The *New Yorker* lauds his oratorical prowess and courtroom skills.

The Edwards boom is not hard to explain. The Democratic Party desperately needs a southerner to break the Republican lock on the region. The last two Democratic presidents, Jimmy Carter and Mr Clinton, have both come from the south; Mr Edwards has the added advantage of representing one of the bigger southern states, with 15 electoral votes.

Mr Edwards is a personable chap: silver-tongued, brimful of southern charm and boyishly good-looking (“the sexiest man in politics”, swoons *Elle* magazine—though, in Washington's post-Bubba detumescence, that may not be too hard a competition to win). He is also an embodiment of the American dream: a small-town boy who went to his local state college (the first person in his family to make it to university) but nevertheless made millions as a hot-shot lawyer. What better antidote could you have to the born-to-the-purple yet oddly charmless Al Gore?

The most immediate flaw is Mr Edwards's lack of experience. He has been in the Senate only since 1998. Before then he showed little interest in politics, never running for elective office and often failing to vote. He cannot remember if he started his political life by registering as a Democrat or a Republican. As a senator, he has done reasonably well: he is, for instance, a co-sponsor, with John McCain, of the patients' bill of rights. But he has yet to make any issues his own. He is neither a legislative warhorse, like Teddy Kennedy, nor a policy wonk, as Governor Clinton was in Arkansas. And he is a complete neophyte when it comes to foreign policy—hardly an ideal qualification in the current circumstances.

This lack of experience could well prove fatal in the slow race for the party's nomination. Why, whisper Mr Gore's friends, should the party drop a former congressman, senator and vice-president for an untried newcomer whose only experience of foreign affairs consists of visits to the International House of Pancakes? And, if you really can't take any more Gore, why not choose someone who has been around the party for decades, such as Tom Daschle, John Kerry or Joe Lieberman? Already some people are talking about Mr Edwards as a better candidate for 2008 (perhaps after running for the vice-presidency in 2004).

Mr Edwards's lack of experience could well prove fatal in the slow race for the party's nomination

Yet even as a long-term bet, there are plenty of problems with the Democratic Party's golden boy. The first is his profession. Mr Edwards made his millions as a personal-injury lawyer. He is somewhat shielded from the charge of ambulance-chasing by the nature of the cases that made his fortune (they involved horribly injured children rather than boiling-hot cups of coffee) and by personal tragedy (his teenage son was killed in a car accident). But only somewhat. Millionaire trial lawyers are hardly the most popular people in America.

Populism's fading charms

His other problem is his political philosophy. “The people's senator” is a full-throated populist. He believes

that the job of decent politicians is to represent the interests of the little guy against big, bad companies. This is exactly the same manifesto that Mr Gore adopted in 2000 (Mr Edwards is being advised by a former Gore man, Bob Shrum). Mr Edwards's supporters point to the indisputable fact that Mr Gore was a lousy salesman of populism. But, even with nice Mr Edwards pleading the case, America may not swallow the idea that its biggest problems are caused by the corporate elite.

Are soaring health-care costs the fault of profit-obsessed health-care companies? They surely owe more to rising longevity and medical innovations. And what about the high price of medicines? These largely reflect the expense of developing new drugs: squeeze those profits and you reduce the chances of finding a cure for AIDS and cancer. But at least in health care Mr Edwards can find a few corporate windmills to tilt at. When it comes to many of America's most pressing problems, such as suburban sprawl or the Social Security system, there are no obvious companies to blame: all too often, as Mickey Kaus, an on-line pundit, points out, the enemy is not “them” but “us”.

Unfortunately, the “people's senator” is a full-throated populist, railing against corporate elites

Then there is the problem of how you define the elite. Mr Edwards's brand of populism is exclusively directed against corporate elites. But there are public-sector elites as well. Mr Edwards has shown no willingness to take on the teachers' unions, though they are a much bigger barrier to improving the prospects of poor Americans than the average company.

Indeed, far from being an increasing source of strength for the Democrats, populism has become an ever less reliable resource. It needs a complete breakdown of the financial system (as happened in the 1930s) or a social revolution (the 1960s) to persuade Americans that government is more than a necessary evil. Recent populists have tended to rail against government meddling, rather than call for more. Most Americans like to think of themselves as masters of their own destinies, rather than as victims or plaintiffs. A majority own shares in the companies that populists like to demonise.

These were the changes that the young Mr Clinton and his acolytes embraced when they forced their party to adopt the centrist New Democratic agenda; that set of policies helped him win two elections. Instead of worrying that the charming Mr Edwards is too like Mr Clinton, the Democrats should start praying that he becomes far more like him.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Education in Latin America

Cramming them in

May 9th 2002 | MEXICO CITY AND SAO PAULO
From The Economist print edition

Still Pictures

More Latin Americans are being educated, but not well

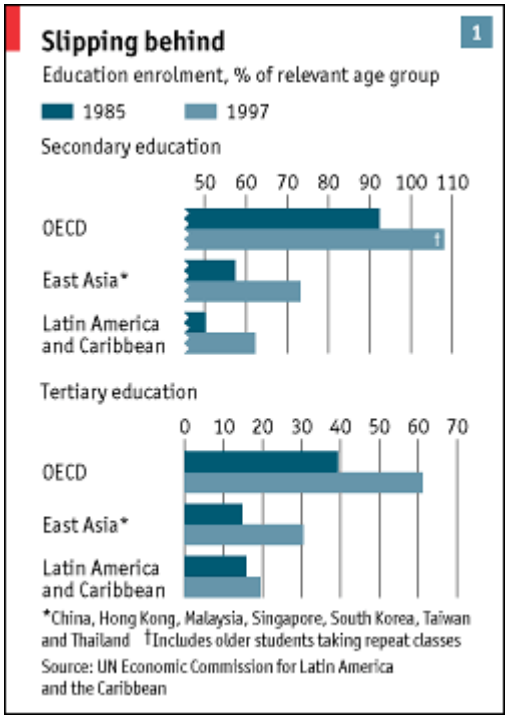
PROMISES of big improvements in basic education were writ large in the manifesto that won Vicente Fox election as president of Mexico. Likewise for Brazil's president, Fernando Henrique Cardoso. Whereas their predecessors lavished spending on universities, aiming to train a small elite, the current generation of Latin American leaders say they recognise the value of ensuring that all children, especially the poorest, get a proper schooling. There is a broad regional consensus that improving the quantity and quality of education is vital for economic development, to reduce Latin America's disfiguring inequalities, and to create stable democracies. At last year's Summit of the Americas, the hemisphere's leaders, having previously pledged to achieve universal primary education by 2010, promised to have at least 75% of each country's youngsters completing secondary school by then. But is presidential rhetoric matched by classroom reality?

There has been progress. Two-thirds of Latin American children now get at least some secondary education, whereas only half did in the mid-1980s. Young Mexicans now receive, on average, 7.7 years of schooling, up from just 1.7 years in 1940. School enrolment has been boosted by schemes in Brazil, Mexico, Argentina, Honduras and Nicaragua, under which poor families get welfare payments provided that their children attend school regularly. This has helped Brazil, until recently a regional laggard, achieve near-universal primary education for the first time in its history. Progresa, the Mexican scheme, has been so successful that some economists now urge it on the United States.

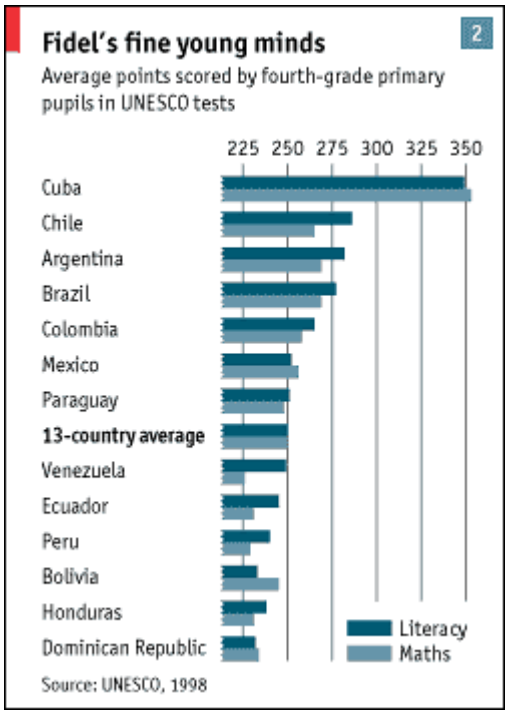
But there the good news ends. In years of schooling, much of the rest of the world has moved on even faster, leaving Latin America further behind (see chart 1). And the region's overall enrolment rates conceal huge local disparities. In Mexico, for instance, illiteracy in some rural areas reaches 21%, double the national average. John Scott, a researcher at CIDE, a Mexico city university, says that while the country's richest 10% have typically spent 12 years at school, the poorest 10% have on average just two years of education.

As well as lacking still in quantity, Latin American schooling is also of poor quality. Last year the OECD published the first results from a 32-country study, measuring 15-year-olds' abilities in maths, science and their native language. Some developing countries

either came close to the average (eg, Poland) or even exceeded it (South Korea). But Brazil and Mexico, the only two Latin American countries in the first batch of results, lagged a long way behind the other participants. More results are due soon, including those for Chile. The OECD's researchers expect it, too, to be at the bottom of the world class.



What makes that finding all the more worrying is that Chile, Brazil and Mexico were all among Latin America's better educational performers in tests on primary-school pupils in 13 Latin American countries conducted by Unesco in 1998 (see chart 2). Top of the class in these tests was Cuba, whose dictator, Fidel Castro, has made education an integral part of his revolution since coming to power in 1959, though at the expense of other rights.



So what is going wrong? Not enough spending on education? Mr Fox thinks so, and is promising to raise it from 4.5% to 7.5% of Mexico's GDP. Extra spending on new classrooms and teachers is needed in some countries to lengthen the school day. But much more could be done within existing budgets. For one thing, countries such as Mexico and Brazil would have more to spend on schools were their education spending not still skewed towards public universities (whose students typically come from families who could afford places at private ones). In Brazil the public universities have just 2% of all pupils in the education system, but get 25% of its funds.

Even more important, disorganised schools and poorly trained teachers mean that much education spending in Latin America is wasted. Schools in Poland and Hungary produce world-class pupils despite spending only a little more than Brazil or Mexico, according to the OECD. Studies elsewhere have shown that education systems work best when schools are given clear objectives, with their achievements being monitored through independent tests, but with plenty of administrative freedom on how to attain these objectives. By contrast, Latin American schooling is over-centralised and under-regulated.

Teachers often receive only the barest guidance on what to teach, and little or no training in how to teach it. Lacking clear goals for what pupils of each age should be achieving, teachers in Latin America are “working in the dark”, says Andreas Schleicher, one of the OECD study's organisers. Many falsely imagined that their pupils were doing well, the study found, and thus did not push them to achieve better.

These problems have been perpetuated by an almost complete lack of accountability in education. Typically, there are no public exams and no independent evaluation of schools. Often it is left to individual teachers to design their own tests for each class. So there is no pressure to improve standards, because nobody knows what those standards are. Even so, failing pupils are often required to repeat a year. Such over-age students block up the system (without them, Brazil would have enough secondary-school places for all), but many end up dropping out anyway.

Changing all of this requires political will to face down the objections of powerful teaching unions and other parts of the education establishment. In some places, that is starting to happen. Brazil's education minister, Paulo Renato Souza, is winning acceptance of his standardised exams which test the

performance of schools and universities. But Mr Fox is still struggling to draw up his flagship plan for an independent institute to conduct school tests. After a year of battling with teachers' groups and others, this remains nothing more than a good idea.

Similarly, moves to give schools more autonomy are progressing, but slowly. A school self-management scheme in the Brazilian state of Minas Gerais, backed by the World Bank, has shown promising results, as has Colombia's Escuela Nueva project, which involves parents and pupils in running schools. Chile and Venezuela are trying out variations on school-voucher schemes, where the state pays but the education is delivered by independent, often church-run institutions.

Perhaps the most hopeful sign is a greater willingness to acknowledge failure. As recently as 1995, Mexico tried to suppress publication of its schools' poor results in an international study. But for all the progress, Latin American governments will need to show far more urgency in pushing through difficult but necessary reforms if the region is not to remain at the bottom of the world class.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia's conflicts

War crime

May 9th 2002 | BOGOTA
From The Economist print edition

Rebel atrocity, army weakness

WAVING improvised white flags and without even having buried all their dead, the frightened residents of remote Bellavista struggled up the muddy Atrato river this week to tell of Colombia's worst single incident of bloodshed in four decades of conflict. As their village was enveloped by fierce fighting between the FARC guerrillas and right-wing paramilitaries of the United Self-Defence Forces of Colombia (AUC), civilians sought sanctuary in Bellavista's small church. But a home-made mortar fired by the FARC crashed through the church roof, turning the building into a slaughterhouse. At least 117 people were killed, 48 of them children, and more than 100 were injured.

For the FARC, this attack represented another dismal step on its path to international disgrace. The UN Human Rights Office in Bogota said such killings were a war crime. Embarrassingly for the European Union, the atrocity came just as it had refused (at the insistence of Sweden and France) to place the FARC alongside the AUC on its official list of terrorist groups. “If this isn't terrorism, what is?” asked President Andres Pastrana. Whether or not the FARC fired at the church deliberately (it later claimed the AUC fighters were using the civilians as a shield), its cooking-gas cylinder mortars are devastatingly indiscriminate weapons. According to Human Rights Watch, a New York-based group, at least 12 civilians were killed and 45 wounded in 27 previous gas-cylinder bomb attacks by the FARC since last July.

The Bellavista atrocity has also brought criticism of the army's impotence. The battle for the town involved large forces (1,000 FARC and 600 AUC, according to one report), and lasted three days. Both the UN and the local ombudsman's office had alerted officials that conflict was imminent in the area, but were ignored. Until five days after the massacre, the army was still 85 miles (137km) away in Quibdo, trying to muster troops and equipment, though the air force did claim to have downed a helicopter used by the AUC at Bellavista.

True, the area is remote, a thickly-jungled roadless territory straddling Choco and Antioquia departments. But that is why it is strategically important. The Atrato river forms a corridor to the Caribbean that has been long valued (and thus fought over) by both the FARC and the AUC, to import arms and export cocaine.

Mr Pastrana, with American help, has tried to strengthen the army. The Bush administration has asked Congress to allow donated helicopters to be used against rebels as well as drugs. But it is no surprise that Alvaro Uribe, who has pledged to double the police and further beef up the army, is tipped by polls to win a presidential election on May 26th.

Even so, Colombia is used to violence, and shock at the massacre has been muted. For most Colombians, Choco is known as the home of the current national beauty queen: events affecting its poor, mainly black population might just as well be in another country. That is not the least of the things that will have to change if further atrocities are to be avoided.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD THE AMERICAS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Hell's Angels in Canada

Mom's boys

May 9th 2002 | MONTREAL
From The Economist print edition

A victory against organised crime

FROM start to finish, it was no ordinary murder trial. Quebec's provincial government, usually parsimonious with its justice system, set up an elite squad of top prosecutors. It even paid jurors three times the going rate. Maybe that was why it took 11 days of sequestered deliberations and a judicial admonition to try harder. Still, in the end, on May 5th, the jury convicted Maurice “Mom” Boucher, a leader of the Quebec chapter of the Hell's Angels motorcycle club, of ordering the killing of two prison guards.

Quebeckers saw this as a big victory in the province's battle against organised crime, and hoped others will follow. In mass trials similar to those of the Sicilian mafia held in the 1980s, over the next two years dozens of Mr Boucher's underlings will face murder and drugs charges. The province has even built a special courthouse costing C$17m ($11m), and linked by an underground tunnel to the prison where the defendants are held.

Behind these trials lies one of North America's bloodiest and longest gang wars. More than 160 people have died, and at least as many have been injured, as the Hell's Angels have brutally sought a monopoly of Quebec's drug trade, from growing marijuana to retail sales of cocaine. They have been resisted, just as brutally, by the Rock Machine, a rival gang.

This “biker war” has sparked public fascination, but also outrage. It has prompted the federal government to pass increasingly tough anti-gang laws, the most recent one coming after a crime reporter was shot six times yet survived. On several occasions the conflict has been declared over, either by police or by the warring parties themselves. But each time the killings resumed: the bitterness is deep, and profits of several hundred million dollars a year are at stake.

In fact, the biker turf wars may be spreading. In February, a member of the Pagans club was killed in a bust-up with Hell's Angels in Long Island, New York, while last month four members of the Angels and Mongols gangs died in a shoot-out at a biker gathering in Nevada.

In Quebec, police have often seemed powerless against the bikers. Special task-forces drawn from federal and local forces disintegrated in bickering. About 70% of murders in Montreal are normally cleared up. But in the biker war, the figure “isn't even 10-15%”, says Commander André “Butch” Bouchard, Montreal's top homicide officer. “Either we catch them on the scene, or forget it. Maybe a few years later we'll be lucky and someone rats on them.”

Indeed, it is turncoats who have become the Angels' nemesis. The case against Mr Boucher, an outlaw celebrity and something of a sex symbol in Quebec, was based on the testimony of two former gang members. That against many other senior members of the gang—and Mr Boucher's 27-year-old son—is based largely on evidence from Danny Kane, a bisexual. The police say that he became an informer after being told that he could never become a full member of the gang because of his sexual orientation. His evidence led police to the Hell's Angels' main Montreal counting-house, which was processing as much as C$1 billion per year. As a result, 40-odd associates of *les hells*, as Quebeckers call them, have already pleaded guilty in drugs cases. In all, more than 120 Hell's Angels were arrested. Even so, the police acknowledge that Quebec's supply of drugs has not been cut in the least.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Human rights in Guatemala

Law, or force

May 9th 2002
From The Economist print edition

Can the army be curbed?

WHEN in 1996 a peace agreement finally ended a 36-year civil war in which 200,000 people had died, most of them Mayan Indians killed by the army, there was reason to hope that the rule of law might start to count for something in Guatemala. But since the election of Alfonso Portillo as president in 1999, such hopes have begun to fade. Now, those who defend human rights in Guatemala are once again becoming targets of violence in what looks like a campaign by former army officers to avoid being brought to book for past abuses.

Last month, a team of anthropologists digging up hidden war graves received death threats. Then, on April 29th, Guillermo Ovalle, who works in a centre set up by Rigoberta Menchu, a winner of the Nobel Peace Prize, was shot dead as he ate lunch in a café. The police claimed he was caught in the crossfire of a robbery. So why did someone call the Menchu Foundation offices and play a funeral march over the telephone? This week, other human-rights groups also received macabre threats.

Mr Portillo seems unwilling or unable to stop the threats. Once a left-winger, he now belongs to a populist party set up by Efrain Rios Montt, the country's dictator in 1982-83 during the war's bloodiest phase, and now the head of Congress. He is the more powerful of the two. “Mr Portillo has the last word—it is ‘yes general',” says Hector Rosada, who signed the peace accords for the previous government.

A hero to some Guatemalans, General Rios faces accusations of genocide in lawsuits launched against him by the Menchu Foundation and another group. Could a Guatemalan judge convict General Rios and live? It seems unlikely.

Mr Portillo has paid compensation to some victims of past atrocities. He has also overseen the arrest and conviction of three soldiers, including a colonel and a captain, for the murder in 1998 of Juan Gerardi, a Catholic bishop who led an exhaustive investigation into the war, which found the army responsible for 90% of the killings.

But Mr Portillo has all but stopped implementing the UN-brokered peace accords, which were supposed to strengthen democratic institutions. He has reversed curbs on the army, appointing retired officers to run the interior ministry and deploying troops to combat crime. He has reneged on commitments to disband military intelligence or the presidential guard, which administered state terrorism during the war. And he has almost doubled the defence budget, breaching a limit of 0.66% of GDP fixed in the peace accords. The UN has given warning that paramilitary groups, responsible for wartime abuses in the countryside, have regathered.

Mr Portillo's term ends next year. “The government is no longer in control. There is a power vacuum,” says Frank La Rue, a human-rights lawyer. Once again, violence may be more deeply rooted than law in Guatemala.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Myanmar

A new page?

May 9th 2002 | YANGON
From The Economist print edition

Reuters

Aung San Suu Kyi has been released. But now negotiations on restoring democracy must begin

Get article background

THE small crowd that gathered this week to await the release of Aung San Suu Kyi, Myanmar's Nobel-prize winning dissident, could not contain its excitement. Rumours of her imminent arrival at the headquarters of her National League for Democracy (NLD) caused the waiting activists to surge up and down the street outside the building, knocking over television cameras. When she finally did arrive to make her first public appearance after nearly 20 months of house arrest, the elated onlookers listened rapturously as she reiterated her determination to bring democracy to Myanmar, after 40 years of military misrule. Miss Suu Kyi's 18-month dialogue with Myanmar's junta finally seemed to be bearing fruit.

But most Burmese are wearier and more cautious than the excitable cadres of the NLD. Fewer than 1,000 people turned out for Miss Suu Kyi's release. Passengers in passing buses twisted and craned to catch a glimpse of her—but none dared stop. Hardly anyone on the streets of the capital, Yangon, risked discussing the matter with foreigners, and those who did affected a lack of interest or expressed mistrust of the junta's intentions. Myanmar's democrats have suffered too many false starts and setbacks over recent years to take the military regime's announcement of “a new page” at face value.

After all, Myanmar has been through all this once before. In 1995, six years after the generals first detained her, and five years after the NLD won a landslide election victory that they never honoured, Miss Suu Kyi was set free under similar circumstances. Then, as now, the step was supposed to pave the way for talks on the country's future between the NLD and the State Peace and Development Council (SPDC), as the junta calls itself. But in late 2000, after inconclusive contacts and frequent rows over Miss Suu Kyi's attempts to travel outside Yangon, the SPDC changed its tune and re-arrested her.

Relations between Miss Suu Kyi and the SPDC may prove smoother this time around. For starters, the question of her freedom of movement seems to have been resolved: both she and a government spokesman agree that she can go wherever she wants—though how long this will last is anyone's guess. Furthermore, the two sides have been careful to foster a less confrontational atmosphere. As a show of good faith, the junta has allowed the NLD to reopen some branch offices, released some political prisoners, and promised to go on releasing others. A government spokesman recently described Miss Suu Kyi as “a prominent person”, a far cry from the normal label of “neo-colonialist stooge”. She, in turn, took pains to point out that she did not plan any marches or protests, would inform the government of any plans to travel outside Yangon, and did not consider her past treatment “cruel”.

Yet as Miss Suu Kyi herself pointed out, “The phase of confidence-building is over.” Talks are now supposed to move on to weightier topics, such as the shape of a new constitution or a framework for a reversion to civilian rule. Few observers believe that the SPDC is willing to relinquish ultimate control. A common view is that the junta resorted to dialogue only in the hope of winning foreign aid and investment. Yet Miss Suu Kyi insists that none of her party's policies have changed, including its discouragement of any foreign support for the economy. She herself admitted that the SPDC has not yet set a date for more talks.

If further negotiations do take place, progress is likely to be glacial. It took 18 months to reach agreement on the relatively minor, if symbolic, step of releasing Miss Suu Kyi. More substantial measures would presumably cause more dissent and delay, especially among the regime's top brass. And there is, anyway, no guarantee that the SPDC would stick to whatever deal it might reach. Many of the ethnically based rebel groups that signed ceasefires with the government in the 1990s now seem to regret it. Having persuaded the insurgents to lay down their arms, the SPDC is busily undermining the autonomy it granted them. There is no reason to imagine that the NLD would receive better treatment. As one diplomat put it, “The SPDC does not do anything in good faith.”

That is why western governments have resorted to an elaborate system of carrots and sticks to prod the regime. America, for example, has banned firms from investing in Myanmar, while the European Union refuses to give visas to senior SPDC officials. The American Congress has long threatened further punitive action if the human-rights situation deteriorates, while signs of progress earn some reward. One diplomat notes the junta's delight at even the tiniest show of support, such as the EU's recent decision to back Myanmar's entry into the International Hydrographic Organisation. But even this leverage tends to be undermined by some countries' willingness to do business with the SPDC. Japan and Australia, among others, stress engagement over isolation. China and other Asian nations, meanwhile, display very few qualms about dealing with Myanmar's dictators. Miss Suu Kyi's release will only heighten this divide.

In other words, for all the fanfare, Miss Suu Kyi's release does not mark the end of her dispute with the SPDC, but rather the beginning of an even more fraught and fragile phase. The vaunted “new page” may yet turn out to be just another leaf from the familiar old book.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

South Korea

The president apologises

May 9th 2002 | SEOUL
From The Economist print edition

As the election race hots up

EPA

Roh, the front-runner, under pressure

THE South Koreans are already turning their minds to choosing their next president, although the election is not until December. Corruption, the old bogey of Korean politics, has brought it to early attention. On May 6th, President Kim Dae Jung publicly apologised for the transgressions of two of his sons. They face charges of taking bribes from businessmen. Mr Kim won the presidency in 1997 after promising to root out corruption in the country, so his apology was that much sadder.

This week Mr Kim also resigned from the Millennium Democratic Party (MDP), which he founded. This action is said to be not specifically connected with the apology, although that is how many view it. The opposition said the resignation was designed to protect his party and its presidential candidate, Roh Moo Hyun, from being harmed by the corruption scandal. However, it is customary for the president to sever his ties with politics in the last stage of his term to give the appearance of neutrality in the coming contest. Mr Kim anyway has plenty to do before leaving the presidential palace next February. There are reforms to complete, and, more agreeably, World Cup soccer matches to preside over.

Mr Roh, who won the ruling party's nomination for president last month, is ahead of Lee Hoi Chang, anointed this week as the candidate of the main opposition party, in the opinion polls. But his lead has narrowed from 20% a month ago to 8% in the wake of the scandals. His rating may fall further as the opposition threatens to twist the knife by seeking to impeach the president.

If Mr Roh and Mr Lee remain the leading candidates in the race, voters will have a clear choice of policies. Mr Roh's MDP leans to the left of centre and Mr Lee's Grand National Party (GNP) leans to the right. The MDP favours more government spending on welfare. The GNP is pro-business and proposes cuts in taxes on corporations and incomes. In dealing with intransigent North Korea, Mr Roh would continue the present policy of wooing the regime with unconditional aid. Mr Lee insists on reciprocity.

Both parties want South Korea to maintain its close relationship with the United States. But Mr Roh is ambivalent about whether to allow American troops to stay on when, or if, the two Koreas are reunited. It is perhaps no surprise that Mr Roh attracts much of his support from the young and the progressive and Mr Lee's appeal is mostly among the old and conservative. Indications of the voters' mood will come on June 13th in nationwide elections for mayors and governors.

Policy alone will not settle the outcome. Mr Roh needs votes not just from the Cholla region, the MDP's political base in the south-west, but also from the area around Pusan, his hometown in the south-east, where voters turned him down in parliamentary elections two years ago. His campaign message is that, as an MDP man born outside Cholla, only he can help to end regional animosity and unite South Koreans. But it may not be enough.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

North Korea

Delayed reaction

May 9th 2002
From The Economist print edition

What America and North Korea might talk about

AFTER months of waiting, America's envoy on North Korean matters could shortly be on his way to Pyongyang for talks. He can expect a nuclear-tipped earful. A spokesman for KEDO, the American-led consortium building two western-designed nuclear reactors in North Korea, confirmed a report this week that the North now knows what has long been an open secret: the first of the reactors, part of a 1994 deal to end the North's nuclear-weapons dabbling, will probably not be finished until 2008, five years behind target. North Korea has long said it will demand “compensation” for any delay in the project. If it does, America is likely to refuse; its officials have pointed to North Korea's foot-dragging and provocations as the source of past delays. So, back to the brink on the Korean peninsula?

The Bush administration would rather entice North Korea into broad-ranging talks: on its missile output, on inspections to ensure it is complying with its end of the reactor agreement, and on confidence-building measures to reduce the threat to South Korea from the North's forces just over the border. With the exception of a missile deal—which Bill Clinton had toyed with but the Bush team rules out in isolation—North Korea has so far wanted none of this. It has been particularly chary of letting nuclear inspectors in. Ironically, confirmation of the reactor delay makes this harder to avoid.

Under the 1994 deal, the IAEA must account for all the North's bomb-making plutonium, bringing it into compliance with the Nuclear Non-Proliferation Treaty, or the nuclear parts of the reactors cannot be delivered. Without dates, it was hard to press the North. Now everyone knows the nuclear bits are due to arrive in 2005. The IAEA says it will take three to four years to do its work. So inspections have to start soon.

North Korea may hope that by raising new claims, it can persuade America to settle for less intrusive inspections. A first task, once talks do get going, will be to convince North Korea of how grave a miscalculation that would be.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan

Wall-to-wall worries

May 9th 2002 | TOKYO
From The Economist print edition

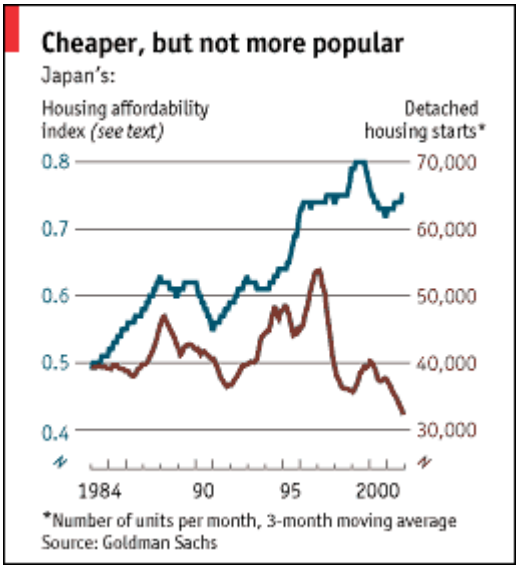
The housing market shows just how deep Japan's economic troubles run

Get article background

THE battered market for commercial property, whose values have fallen by 82% in city areas since their peak in 1991, remains the most notorious symbol of Japan's economic troubles. Depressed commercial land prices belie the creative maths on firms' balance sheets, and threaten the solvency of the banks that have lent to them. That is one reason the government of Junichiro Koizumi, like those of his predecessors, is toying with ideas for propping up prices of commercial real estate. Yet for all the well-known troubles surrounding commercial property, the pall hanging over Japan's housing market may be even more disturbing.

To see why, consider the "affordability index" compiled by Goldman Sachs, an investment bank. The index weighs everything from mortgage-interest rates and construction costs to wages and savings, and thus gauges how easy it is for Japanese to afford new homes under current conditions. Rie Murayama, Goldman's property analyst in Tokyo, says with a chuckle that when she first began using the index in 1996, and saw how well it matched housing starts over the previous two decades, she got excited: "I thought, wow, for the first time I can predict what's going on in the housing market." Then the bottom fell out of it.

Since peaking in late 1996, owner-occupied housing starts have fallen by 43%, reaching an 18-year low in the fiscal year that just ended. Yet as the chart shows, new homes are just as affordable now as they were five years ago, since low mortgage rates and cheap land prices continue to offset stagnant wages. The reason demand collapsed, argues Ms Murayama, is that the arithmetic no longer matters as much to potential homebuyers, who are increasingly worried about their future. The widening gap between her index and the housing market serves as an index of economic confidence—and it is looking alarmingly negative.



Many of the ideas that reformers champion, though laudable, will do little to boost urban property prices in the near term. Efforts to improve efficiency, such as by further relaxing zoning rules, would simply increase supply. If anything can spur corporations to disgorge their property holdings more quickly, it will have the same effect. The only steps that might bolster urban land prices would be tinkering with the tax code, or (less sensible but always possible) using government funds to buy real estate.

Despite these excess-supply problems, growing demand for office space and centrally located flats could start to pull Tokyo around. The paralysis in the prefectures, by contrast, will be far harder to solve. For a start, the government is already constrained by high public debt and the need to keep banks afloat. By 2005 it plans to eliminate the Housing Loan Corporation, which offers fixed-rate, long-term mortgages, in competition with banks. It is cutting the corporation's budget by 20% this year, which is bound to hit demand.

Other ideas mooted by Mr Koizumi's advisers might help a little. Efforts to make home appraisals more sensible might encourage people to buy and sell houses far more readily, as they do in the United States. But if it is really to have an impact, the government needs to tackle the confidence crisis much more

directly. Unfortunately, instead of dealing with the problem of collapsed demand, Mr Koizumi seems content to carry on addressing the symptoms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Microcredit in Bangladesh

Mr Elahi's ray of sunshine

May 9th 2002 | MOHESHKHALI
From The Economist print edition

But the loan system is attracting criticism

THE island of Moheshkhali, off the southern coast of Bangladesh, has no electricity. So the solar-powered television of Mahbub Elahi, a farmer, is something of a boon in a community with few diversions. The spicy entertainment that Mr Elahi favours may not be approved of by Mrs Elahi, but she does agree that having a solar panel on the roof has changed the family's life for the better. For one thing, their children can do their homework in the evening under electric light.

The panel was paid for by a loan from Grameen Shakti, one of 21 companies in the Grameen group of Muhammad Yunus. Mr Yunus pioneered the idea of microcredit—providing small loans to poor people to improve their lives. Over the past 25 years the idea has spread throughout the world. In Bangladesh alone, there are now at least 10m people with microloans from around 600 microfinance institutions. The government says that at least 80% of poor families in the country are benefiting. But some now question whether microcredit is really such a panacea.

Individual lives may have been changed for the better by microcredit, say critics, but a quarter of a century after it started, around half of Bangladesh's population of 130m remains below the poverty line. Critics also argue that the microfinance industry has become saturated. While the Bangladeshi market is largely dominated by the Grameen Bank and such organisations as the Bangladesh Rural Advancement Committee and the Association for Social Advancement, there are many smaller outfits offering microloans, including 18 sponsored by the government. Some lenders make larger and riskier loans to keep clients from moving to a competitor. As a result, more borrowers are defaulting.

Few lenders print audited accounts. M.M. Akask, an economist at Dhaka University, says it is not clear whether money to run the Grameen Bank's microcredit scheme is coming from depositors' savings, from loans from banks or from international donors. He adds that if, as Mr Yunus claims, the bank is owned and operated by poor people, “then it should be subject to independent audits.”

Mr Yunus shrugs off the criticisms. “Just look at our record,” he says. “We estimate that worldwide we are still on course to offer microcredit to 100m of the world's poorest families by 2005.” He accepts, and says he has long believed, that microcredit alone cannot alleviate poverty. Mr Yunus retains strong support among politicians in Bangladesh. “No single person can propel this country out of the poverty trap,” says Debapriya Bhattacharya, of the Centre for Policy Dialogue. “But the microcredit system has provided a safety net to thousands of poor people even if sometimes it may have been a little porous.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Poverty in India

Trees versus people

May 9th 2002 | BADAMA
From The Economist print edition

Some of India's poorest are the victims of a scheme to plant more trees

Their lives in a distant court's hands

TO PEOPLE in the impoverished hamlet of Badama, in the south-eastern part of Uttar Pradesh, India's most populous state, January 1st is independence day. On that day in 2000 they seized rights to mine stone on nearby land, ridding themselves of exploitative contractors. Their wages nearly tripled from a pittance of 20-25 Indian rupees (about 50 American cents) a day; their children started going to school. In celebration, the villagers built a temple, the only structure in Badama that rises much above brow level.

Now their newly won freedom is in peril, this time from the Forest Department, which recently came into possession of the land mined by Badama and three other villages. The acreage is not exactly sylvan: a few mango trees punctuate a landscape of rock and dust. But it is now officially forest and, unless the central authorities in distant Delhi say otherwise, may be used only for forestry, however unofficially barren it may be. And so some 500 people stand to lose livelihoods that only recently lifted them above subsistence. “We'll starve,” predicts Moolchand, a wizened veteran of the quarries.

The fate of Moolchand and his fellow stone-breakers will be decided somewhere along a chain of authority that starts with the district forest officer and reaches up to India's Supreme Court. Their plight is unique only in its details. For millions of Indians, survival depends on the verdict of a mysterious machine, its innards a mesh of ancient notions of caste and modernising zeal, local conditions and distant decisions, good and bad intentions and their unintended consequences, institutional successes and failures.

Badama and nearby villages are peopled by Kols, tribal folk who migrated a few generations ago from Madhya Pradesh, a neighbouring state, to escape bondage to feudal lords. Landless and destitute, they settled on the lands of the raja of Shankargarh and took up a strenuous but simple trade: smashing rock into gravel. Stone-breaking has its virtues. It requires neither schooling nor capital; Amar Saran, a lawyer based in Allahabad, the district's main town, calls gravel a “cash crop,” which can be harvested year round. Yet the Kols found themselves ensnared in a new sort of servitude, woven by contractors with mining leases obtained from the raja (who still claims mining rights to 46 villages). They were paid less than half the legal minimum wage (about 60 rupees in Uttar Pradesh today); sickness or marriage brought debt; some families allegedly repaid with the bodies of

their wives and daughters.

In the late 1990s an NGO called Sankalp began helping the stone-breakers to organise small “self-help groups”. A dozen or so obtained leases to mine state-owned land, eliminating contractors. On the domain of the raja, who seemed reluctant to deal directly with the stone-breakers, they more or less seized the land with quiet consent from the local authorities. It was a rare victory for the downtrodden.

It has not made the stone-breakers rich, just slightly less wretchedly poor. Badama has no electricity; its hand pump is broken and the well yields mud. Its 35 huts harbour 12 cases of tuberculosis, the villagers say. But their nemesis is the Forest Department, which has begun building a wall around the property and posted sentries.

There are green reasons for the Kols' impending dispossession. It is a national policy to raise forest cover to a third of Indian territory from a fifth now. State governments, which own most forests, must seek central-government approval for any shift in the use of forest land. The Supreme Court in Delhi, which so mistrusts the state that it has become a maker and enforcer of law as well as its ultimate interpreter, now monitors such transfers. So when the state turned over 187 hectares (460 acres) of forest for a planned refinery near Badama, a plot the same size had to be found for the Forest Department.

Why that particular plot? Biswajit Banerjee, the divisional forest officer, admits that the rocky soil is of little use for planting trees. A “privileged class close to politicians” has cornered much of the better land, he says. The Kols have no such clout.

Mr Banerjee is the first arbiter of their fate and it is not clear how he will rule. His demeanour and record bespeak conscientiousness. He was transferred to Allahabad, reportedly, after clashing with an MP over illegal plundering of forests in another part of the state, a common fate for officers who defy power. He concedes that, technically, breaking stones might help replenish ground water. Mr Banerjee boasts of bringing a “human touch” to his work. Yet he seems to prefer trees to people, or at least to the Kols. India's burgeoning population is crowding out forest, he suggests, arguing that “people of quality should come up, not just inferior grade”.

Mr Saran, the stone-breakers' advocate, tries to soften him up. Give the Kols the means to feed themselves and they will protect the trees, he urges. Refuse, and they may become violent, left-wing “naxalites” as others have in states such as Bihar.

Mr Banerjee is considering; Mr Saran is rehearsing arguments for the courts, whose green zeal has inadvertently endangered the stone-breakers of Badama; and they are praying that forces they dimly comprehend do not break them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Israel, America and Palestine

Terrorism's body-blow at peace

May 9th 2002 | JERUSALEM
From The Economist print edition

EPA

But even before the latest suicide bomb, diplomacy between George Bush and Ariel Sharon was making only glacial progress towards it

Get article background

AS THEY talked on May 7th, George Bush and Ariel Sharon did not know for certain that an explosion that had torn through a snooker hall in Rishon Lezion near Tel Aviv was the work of a Palestinian suicide bomber. But had they known, the core of their conversation might not, it seems, have been very different.

The president was not minded to apply pressure on Israel's prime minister. He was dismissive of Yasser Arafat, the Palestinian leader. Asked if he had urged Mr Sharon to accept Mr Arafat as the Palestinians' legitimate negotiator, Mr Bush told the press “I'm never going to tell my friend the prime minister what to do.” He went on to criticise Mr Arafat for letting down his own people. So much, it seems, for the hope held by Arabs, Europeans and some Israeli peaceniks that Mr Bush was going to press Mr Sharon to deal, and thus take advantage of the relative lull in violence.

In any event, the lull, such as it was, is over. Once the facts of the atrocity became clear-the suicide bomber had killed 16 people and wounded dozens-Mr Sharon promised a forceful Israeli reaction, and flew straight home to plan it. “Our work is not yet done,” he said, foreshadowing further massive incursions, apparently into Gaza this time.

The first phase of the earlier West Bank operation had all but ended. The Israeli army remains on the edge of Palestinian towns, free to go in and out at will; a woman and her two small children were killed by tank fire near Jenin this week. And, at mid-week, the five-week stand-off at the Church of the Nativity in Bethlehem seemed jerkily to be drawing to a negotiated close, under which 26 of the militants were due to be sent to Gaza to stand trial. The future of the 13 “most wanted” men was still unsettled (Italy had been named as their future host, but then, not unreasonably, balked). They are expected to stay in the church under international supervision until a new home is found.

The Rishon Lezion bombing was the first suicide attack since April 12th. It was claimed by Hamas, and condemned by Mr Arafat, who ordered his security forces to prevent “all terrorist operations”. But Mr Sharon had been quick in telling a press conference in Washington that it proved “the true intentions of the person leading the Palestinian Authority. He who calls for millions of martyrs is guilty...He who funds terrorism is guilty...Guilty.”

Back in Israel, there were renewed calls from the right for Mr Arafat's deportation. Mr Sharon will have to weigh them with care. Mr Bush has insisted, at least until now, that Mr Arafat should not be personally harmed, nor physically removed from Palestine. In a sense, Mr Arafat is useful to Mr Sharon: the more the prime minister can focus America's attention on the Palestinian leader's deficiencies, the less likely are his basic policy differences with the administration to flare into the open.

The bombing played straight into Mr Sharon's hands. His aides had spread around Washington a “black paper”, documenting what Israeli intelligence says are direct links between senior aides to Mr Arafat and the financing and running of terrorism. Israel has also fingered Saudi Arabia for allegedly financing Islamic radicals in the occupied territories. The Saudi foreign minister, Prince Saud, who was also in Washington this week, dismissed that charge. He accused Israel of refusing “to take yes for an answer” in reference to the Saudi peace plan that offers normalisation with all the Arab world in return for withdrawal from all Palestinian land.

No time for peace plans

Mr Sharon hardly had to bother to tout his own “peace plan”, the vague set of proposals he had brought with him to Washington. They include a regional conference, minor Israeli withdrawals and a long-term interim agreement, with negotiations on borders, Jerusalem, and refugees removed to the far future. Only an American president who had designated Mr Sharon “a man of peace”, wrote a columnist in Israel's highest circulation daily, *Yedioth Ahronoth*, could believe that those ideas represented a peace plan.

Although there are sharp differences within his administration, Mr Bush himself seems disinclined at this time to push ahead fast. After his meeting with Mr Sharon, he made perfunctory reference to his support for Palestinian statehood, but seemed unperturbed by Mr Sharon's assertion that this issue was “premature”. There was a brief mention at the meeting of Israel's continued settlement building. But his national security adviser, Condoleezza Rice, made it clear on May 5th that settlements are not now the priority.

Mr Bush and some of his main aides appear to have bought heavily into the Israeli contention that the Palestinian Authority (PA) under Mr Arafat is both terrorist and corrupt, and that it must undergo sweeping reform, especially of its myriad security organs, before any progress towards peace is possible. The CIA's director, George Tenet, will be returning to the Middle East. However, said Mr Bush, he will not this time be trying to broker a ceasefire (which he attempted without success last year), but to help the Palestinians design a unified security force.

Beyond this, the Palestinians need “the rule of law, transparency, a treasury that can battle corruption.” The president said he was urging Saudi Arabia, Egypt and Jordan to persuade Mr Arafat of the urgency for such reforms (there is an American-Israeli idea floating around that Mr Arafat should be reduced to a ceremonial role while others are installed to run the revamped PA). Mr Bush has also been urging these Arab states to support his plans to attack Iraq. How his handling of the Palestine problem dovetails with that, and with the Arab states' response, remains the unsolved subtext of the worsening crisis.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Arabs, America and Palestine

Who'll impose what on whom?

May 9th 2002 | DAMASCUS
From The Economist print edition

In the gloom and scepticism, only radicals prosper

Get article background

EPA

Down with Israel, and everything

NORMALLY, Arab leaders like big get-togethers. And some have long argued for the kind of conference that America has been sort-of proposing to tackle the Middle Eastern mess. But trust in the superpower has sunk so low, and anger with Israel has scaled such heights, that even America's best Arab friends are now wary.

Although Israel's neighbours have been badly shaken, economically and politically, by the violence next door, they are in unwonted agreement that what is needed now is not soothing talk, but determined action. The only point of a conference, as they see it, should be to begin imposing a solution to the Middle Eastern conflict. This would be based on the land-for-peace formula accepted, not just by all 22 Arab states, but by virtually the entire international community, including Israel's own beleaguered peace camp.

The trouble is that someone has to do the imposing. America's Arab allies fear that while they, correctly, would be pressed to do their part in getting the Palestinians into line, the Bush administration lacks the guts to tackle its protégé, Israel. Arab leaders are openly exasperated by America's lack of clout with Ariel Sharon. They worry in private that the administration's internal tensions could be helping to drive the region towards chaos.

The “contradictions” between America's State Department and most of its other agencies, said Egypt's foreign minister, Ahmad Maher, “weaken our chances to calm the situation”. In less diplomatic language, an editorial in the Jordanian daily *Al Rai* gave warning that if the administration opts to appease the pro-Israeli lobby, as right-wingers want it to, Arab-American relations could be plunged into a crisis of confidence “from which only the forces of extremism would benefit.”

Such forces, which menace Arab regimes as well as American interests and, most dramatically, Israeli civilians, are certainly profiting from current tensions. A loose alliance of extremists, which includes Hizbullah in Lebanon, Islamist and left-wing Palestinian groups based in Damascus, and elements within the Syrian and Iranian regimes, are increasingly united, and influential, in pursuing an agenda based on the idea that peace can never be achieved with Mr Sharon's Israel.

“The *jihadists* have already convinced the street that Sharon and Bush are one and the same,” says Nizar Hamza, a Lebanese political scientist. He argues that the extremists are now working to extend a “belt” of resistance groups around Israel: “The race is on: will a global solution be found before this belt is closed?”

Persuaded that time is on their side, Islamist radicals are prepared to pull disaster down on everyone's head, and if this hurts Arab leaders more than Israel, so be it. Such appears to be the philosophy of Hamas. Pressing on with suicide attacks to prove they are not defeated, the Islamists are, in effect, acting in tandem with Mr Sharon to weaken what remains of Yasser Arafat's Palestinian Authority, which bears the brunt of Israeli retaliation.

The bloody stalemate is sapping the legitimacy of other forces which, for better or worse, America would normally promote. The cautious crawl towards economic and political liberalisation has again stalled as

the priority of “confronting” Israel overrides all else.

Lebanon, the Arab world's freest society, teeters on the brink of ruin despite forlorn efforts to bypass the regional turmoil. In Jordan, Islamists swept elections to the 20,000-member Engineers' Syndicate, the country's largest professional union. The court trying a 78-year-old dissident in Damascus last week was draped in Palestinian flags. And in Cairo's unprecedented gloom, a wealthy businessman says that he is thinking of retiring to his farm, “where at least I'll be safe from the mob.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Madagascar's two presidents

Bombing bridges, not building them

May 9th 2002 | TOAMASINA
From The Economist print edition

With two men claiming the presidency, this island nation could split

Get article background

A NEW frontier has been pencilled across Madagascar, a once-harmonious island in the Indian Ocean. If you try to drive up from Toamasina, the main port, to Antananarivo, the highland capital, you meet a roadblock at a bridge in Brickaville, where drunken soldiers, bored truck drivers and hundreds of porters congregate. Here, the country's main commercial highway is reduced to a narrow concrete path. Men totter over it in single file under sacks of cement, crates of tinned food and baskets of chickens. Others wade across the river, pushing barrels of smuggled petrol. Huddled out of the rain, traders sell rice, beer and tea. A militiaman threatens to shoot anyone too inquisitive about the crossing. Brickaville is becoming a border town, and a rough one at that.

The whole road, all 300km (190miles) of it, is studded with barricades. Some are *barrages economiques*, set up to extort bribes from drivers. But most are manned by soldiers loyal to one or other of the country's two rival "presidents". The gunmen nearer the coast support Didier Ratsiraka, the ousted incumbent who insists he is still in charge. He draws his support from among Madagascar's dark-skinned coastal citizens, who have strong ties to Africa and have usually been able, in past elections, to muster enough votes to win the presidency for one of their own.

On the other side of the "border" at Brickaville, as you climb into the mountains, most people support Marc Ravalomanana, a young yoghurt tycoon who was sworn in as president on May 6th. His supporters are mainly light-skinned highlanders, of Asian descent. Tens of thousands of them filled a football stadium to greet his investiture with raucous cheers and a blaring Hallelujah Chorus.

An election in December produced no clear winner. But Mr Ravolomanana says that the count was rigged and that he won an absolute majority. Mr Ratsiraka denies this and calls for a run-off. The crowds in Antananarivo agree with Mr Ravalomanana, and staged weeks of massed protests, prompting Mr Ratsiraka to flee to his home province, Toamasina, in February.

He now runs a rival government from there. He enjoys the backing of much of the army, although some of the top brass and many gendarmes seem to favour Mr Ravalomanana. Mr Ratsiraka also has the support of four of the country's six provincial governors, who each control a local militia. Last weekend, those governors and his own cabinet ministers met in Toamasina to plan secession. "When people can't live together there is a divorce, otherwise we will be like Angola, Burundi or Sierra Leone," said one governor.

Mr Ratsiraka's blockade is throttling the capital. Fuel is now scarce, and food has grown costly. Mr Ratsiraka's supporters have blown up several bridges, making transport in and out of Antananarivo both difficult and dear. Several dozen people have been killed in the past four months.

This is not yet a civil war, but the violence has already made a poor country poorer. The World Bank says that as many as 150,000 people may have lost their jobs, and malnutrition, especially among children, is getting worse. The previous four years saw impressive economic growth, fuelled by foreign investment. All that has now been reversed.

Mr Ratsiraka vows not to lift the blockade until Mr Ravalomanana and his new government resign and agree to a second round of voting. No chance, says his rival, who, after a recount, was named the winner of December's poll by six of the country's nine senior judges last week. The day after his inauguration, parliament reopened in Antananarivo, with nearly half the deputies present. But on the same day, Mr Ratsiraka, who called the investiture a “coup d'état”, convened the remaining deputies at a rival assembly on the coast.

What hope is there of a solution? Mr Ravalomanana talks of unity, reconciliation and “everyone coming to the table”, but he has offered his rival no practical terms of compromise. Worryingly, Mr Ratsiraka is trying to bolster his support on the coast by stirring up resentment of highlanders.

After mediation by the Organisation of African Unity, the two men may meet in Senegal, perhaps next week. But the last time they reached an agreement (last month, also in Senegal), they quickly broke it. Donor countries say they want an African solution, perhaps including another poll and a suitable exit for Mr Ratsiraka. Meanwhile, they are withholding full support from the inexperienced Mr Ravalomanana. Diplomats are pessimistic: some even say Madagascar is close to civil war. Although that probably would not mean all-out war, the prospect is dismal.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Media freedom in Africa

Watch what you say

May 9th 2002 | HARARE
From The Economist print edition

Or you could end up in jug

EPA

Our man, free for now

APART from the stench, the filth, the lice, the cold, the damp and the absence of windows, being jailed in Zimbabwe was not so bad. The cell was a bit crowded, so your correspondent shared a bunk with two feisty young Zimbabwean journalists who had been arrested for the same alleged crime of publishing falsehoods. We passed the time discussing press freedom in Zimbabwe and Africa. Even the guard joined the debate. When we found a copy of the state-owned *Herald* newspaper and started analysing its contents, he reminded us that prisoners were allowed to use newspapers only for toilet paper.

The Committee to Protect Journalists, an American lobby group, rated Zimbabwe the seventh worst place in the world to be a journalist. It is certainly not an easy place to work. This year, seven Zimbabwean journalists, plus your correspondent, who is American, have been charged with criminal offences related to their work. Last year, bombs destroyed the printing presses of the only independent daily paper, the *Daily News*. Three years ago, two reporters who penned a piece that upset the army were tortured with electric shocks and clubbings. The country's sole independent radio station was shut down after only three days broadcasting in 2000. Moreover, since January this year, it has been rated an offence to “denigrate” the president.

The situation in the rest of sub-Saharan Africa could be better, too. Encouragingly, no journalists were killed last year because of their work, although four were murdered for motives unknown. Less encouragingly, over 180 were jailed. Most were released within 48 hours without charge, but according to Reporters sans Frontières, a French watchdog group, 16 remain behind bars.

Africa has some harsh press laws. In Congo, those who “insult the army” face the death penalty. In Angola, it is an offence to “slander...the memory of the dead”, and for those charged with defaming the Mozambican president, “truth is not a defence”.

Perhaps the worst place to be a hack in Africa is Eritrea, where the government banned all independent journalism last year. At least ten journalists were arrested, several fled the country, and others had their bank accounts frozen.

Yet the picture is not wholly bleak. Since the end of the cold war, almost all sub-Saharan African countries have abandoned one-party politics, and dozens of lively, irreverent and sometimes downright scandalous newspapers have popped up. Investigative reporters in South Africa and Zambia unearth corruption and keep their rulers in check. Private radio stations are booming. Few Africans can afford newspapers, but every village has a radio, and many now have an alternative to dreary state propaganda. In 1985, there were only ten community broadcasters in the whole of Africa; in 2000 there were more than 300. In Uganda there are more than 30 private stations pumping out funky music and frank chit-chat, and 100 more have won licences.

Meanwhile in Zimbabwe, your correspondent is out of jail but will probably face trial this year. If convicted, he could be sentenced to two years in prison.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Assassination in the Netherlands

The political legacy of Pim Fortuyn

May 9th 2002 | ROTTERDAM
From The Economist print edition

EPA

The Dutch populist's murder may not win political power for his followers, but it will for his ideas

Get article background

THE Netherlands has long seemed to combine the best of many worlds: a booming economy along with a generous welfare state; a keen attitude to Europe's integration combined with a strong sense of national identity; a multiracial society that seemed at peace with itself. Pim Fortuyn challenged this comfortable picture. His murder, allegedly by an animal-rights extremist, may challenge it further.

In his brief political career, Mr Fortuyn, a flamboyantly gay sociology professor, had shown that there were many Dutch people ready to vote—which probably implied many others ready at least to see his point—for a politician who rejected multiculturalism, called for an end to immigration and excoriated Islam as a “backward culture” for its intolerance of homosexuals, attitude to women and more. His followers, under the name of Liveable Rotterdam, sprang to prominence by coming first in local elections in that city, his home, in March. At the head of a national Pim Fortuyn List, he was running strongly in the campaign for the Dutch general election on May 15th. Already this had called into question the Netherlands' fabled moderation; but his murder on May 6th was an even deeper shock. Commentators noted that this was the first political murder in the country since the 17th century.

After a few hours of agonised reflection, the government decided that the election would go ahead. But there should be no further campaigning. It is unclear what impact the murder of Mr Fortuyn will have on the voting. On the one hand the Pim Fortuyn List, as its name implies, was the quintessence of a one-man band. Without its leader, the party is bereft of recognisable or credible names, and might well ultimately fall apart. Yet it remains on the ballot paper and many voters may back it, as a gesture of sympathy. One leading Liberal politician worries that “the whole election could turn into a giant condolence book for Fortuyn”, a reference to the thousands of people who have queued up outside Rotterdam town hall to sign one there.

If the Fortuyn party does well (and some think it might even come first), Dutch politics will be in turmoil. None of its candidates has ever sat in parliament. The second name on the list, after that of Mr Fortuyn, is that of Joao Varela, a 27-year-old black entrepreneur of Cape Verde origin, with no political experience. Leading a memorial march in Rotterdam on the night of May 7th, he seemed out of his depth, blinking back tears whenever applause rolled through the crowd and barely able to muster a thumbs-up. He seems completely unready to play a leading part in political life. The rest of the list are no more impressive.

So even if the Fortuynists get a big vote, they will probably be shut out of government. That, however, might merely sharpen a trend that Mr Fortuyn had exposed: a growing dissatisfaction with the political establishment and the politics of consensus that the mainstream parties embody. Immigration and crime are now also indelibly on the political agenda.

Commentators outside the Netherlands have tended to see Mr Fortuyn's rise as part of a growth of far-right politics across Western Europe, likening him to Jörg Haider in Austria and Jean-Marie Le Pen in France. The Dutch resented those comparisons. Mr Fortuyn preferred to liken himself to Margaret Thatcher or Italy's Silvio Berlusconi. Certainly it is untypical of far-right politics to be exuberantly gay, to complain about Islam mainly because of its social illiberalism, and to worry about immigration for fear that it would make Dutch society less tolerant. The manner of his murder, apparently by a militant vegan enraged by Mr Fortuyn's willingness to legalise mink-farming, also had an unusual, if chilling, quality to it.

Yet much of Mr Fortuyn's appeal, like that of Mr Le Pen, was indeed built on hostility to immigrants. Among the thousands of mourners who gathered to lay flowers outside Rotterdam town hall, there was much talk of his willingness to break taboos and “say what he thought”. Few doubted that his major contribution had been to raise the issue of immigration and to proclaim that “the Netherlands is full”. It is certainly true that the Netherlands is a densely-populated country, and that the ethnic-minority population is rising fast from 1.1m and 7% of the total in 1995 to 1.5m and 9% in 2001. By 2010 it is forecast that ethnic minorities will make up 12% of the population, and will be in a majority in Amsterdam and Rotterdam.

Mainstream politicians will now feel compelled to respond to these concerns. The famously relaxed Dutch police are likely to be urged towards “zero tolerance” policies and efforts may be made to tighten immigration laws, even though only 2% of the workforce are unemployed.

Dutch politicians might also profitably learn another lesson from the Fortuyn phenomenon: a little populism can go a long way. Mr Fortuyn may have appealed to some unpleasant feelings about immigrants, but he also introduced a form of high-camp, sharp-tongued theatricality to Dutch politics that made the country's political leaders seem dull. In the last television debate before his murder, 40% of viewers reckoned that he had done best; 26% were most impressed by the Green candidate; and just 8% went for Ad Melkert, leader of the Labour Party, the dominant force in the current coalition.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The European Commission

There's a lot of fishy business going on

May 9th 2002 | BRUSSELS
From The Economist print edition

A shocking row is shaking Europe's bureaucracy

Get article background

THE European Commission is not meant to be pushed around by any of the 15 governments in the European Union. Its role is to ensure that European law is enforced and to propose policies that are in the EU's general interest. Increasingly, however, the commission is looking less like a doughty champion of European interests and more like a seven-stone weakling that keeps getting sand kicked in its face by national leaders.

The most alarming recent example is over fisheries. There is strong evidence that a senior European civil servant was sacked to appease Spain's government; and that Loyola de Palacio, a Spaniard who is one of the commission's two vice-presidents, was working hand-in-hand with the Spanish government to frustrate the commission's own fisheries proposals.

It is scarcely surprising that the Spaniards should be alarmed by them. Big cuts in fishing fleets, and in subsidies, in an effort to restore fish stocks are in the offing. Spain, with the largest and most heavily subsidised fishing fleet in Europe, would suffer badly. The commission was originally meant to come up with new proposals by the end of 2001, but the package was delayed until March, and then until April. Now it has been put back a further month after Jose Maria Aznar, the Spanish prime minister, telephoned Romano Prodi, the head of the European Commission, on April 21st to complain.

None of that is edifying but falls within the normal cut-and-thrust of policy- and deal-making in the EU. What happened two days later, however, looks scandalous. Steffen Smidt, the senior civil servant in the commission's fisheries department, was simply told he was to lose his job.

The commission presented his removal as part of a general shuffle of top jobs announced the next day. Neil Kinnock, the commissioner in charge of administration, says that “in no case was any proposal for change under the influence of any member state; there is no truth in the claim that the decision to move the director-general of the fisheries department resulted from intervention by Spain.” Mr Kinnock's people say that Mr Smidt had already indicated a desire to leave the commission in 2003 or 2004 and that they brought forward his departure for reasons of administrative convenience. An odd explanation, since it seems highly inconvenient to sack the top fisheries official in the midst of major reforms. What is more, Mr Smidt was the sole official to be sacked so abruptly; most of the others involved in the re-shuffle had known they were to be moved for months.

Off the record, some senior commission people share the belief that Mr Smidt, a Dane, was sacked to appease Mr Aznar. One says: “The whole thing is a disgrace. Up till now, one of the few things Prodi was actually good at was resisting pressure from national governments. And now this happens.” Struan Stevenson, chairman of the European Parliament's fisheries committee, says the sacking of Mr Smidt “stinks to high heaven” and has called a special session of his committee to investigate matters.

Mr Smidt's removal is all the sadder because it was announced as part of a package of reforms that were intended to give governments less ability to influence commission decisions improperly. The “Kinnock reforms” are meant to end the informal system whereby certain countries always had particular key jobs so that, for example, a German always ran competition policy and a Frenchman had agriculture. But, if prime ministers can now have commission officials they dislike sacked, the reforms will be badly undermined.

Miss De Palacio's case also strikes at the heart of the commission's ability to be genuinely independent in

order to fend off pressure from governments. European commissioners are meant always to act in the interests of the EU as a whole, not of the countries they come from. Everybody knows that in practice things do not always work out that way. For example, when the EU banned British beef exports at the height of the mad-cow furore, the only commissioners to vote against were the commission's two Britons. A bias towards your own country is one thing; directly taking instructions from your country's government, however, is quite another. When Mr Prodi took office he said that he would demand the resignation of any commissioner who was shown to be following orders from home.

So it was a little awkward, to put it mildly, when the Spanish fisheries minister announced on television that his government had “instructed” Spain's commissioners to oppose the fisheries package. One of the Spanish commissioners, Pedro Solbes, nonetheless supported the commission's proposals. But Miss De Palacio, who is politically and personally close to Mr Aznar, was one of four commissioners out of 20 to oppose them. She wrote to Franz Fischler, the fisheries commissioner, setting out her objections to the fish package; they bore a striking resemblance to the Spanish government's own position paper. Miss De Palacio has denied that she took instructions from home. The Spanish fisheries minister now says that he misspoke when he talked of issuing instructions. Mr Prodi says that he believes Miss De Palacio. And there the matter is likely to rest—unless the European Parliament inquiry can wrest more detail.

Is all of this any more than a storm in a Brussels fish pond? Well, yes. Reasonable people can disagree about how much power the commission should have, but all can agree that it is vital that it exercises those powers impartially. If powerful governments can bend the commission to their will, its very point is called into question. What is more, the fish scandal comes at a sensitive time, when Europe's governments seem increasingly inclined to trample over commission decisions. On May 4th, for example, the 15 governments unanimously overturned a commission ruling that temporary fuel subsidies to lorry drivers were an illegal state aid. Earlier this year, they refused to endorse a commission proposal that Germany and Portugal should be warned under the rules governing the management of Europe's single currency, although the commission seemed to be on legally very solid ground.

And now this. Commission officials say hopefully that if Mr Fischler's much-delayed fisheries package is eventually presented in its original form, the commission will after all have demonstrated its independence. But it may be too late for that. A commission that cannot protect its own senior officials from vengeful EU governments is in a bad way.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Ireland's election

Ahern ahead

May 9th 2002 | DUBLIN
From The Economist print edition

The Irish prime minister looks set to win again. Then watch for trouble

FINE GAEL, the main opposition party, offers “Vision with Purpose”. Labour is “Ambitious for Ireland”. Fianna Fail—the governing party, with 75 seats and coalition allies in the outgone 166-seat parliament—doesn't even bother with the hot air: it and its leader, Bertie (the people's friend) Ahern, just announce complacently, “A lot done. More to do”. And almost certainly, pollsters say, Ireland's voters, on May 17th, will ask them to do it. And then, painfully, the real world will reappear.

Ireland in the 1990s became the “Celtic tiger”, with the sort of astounding growth rates that used to be associated with Singapore. Since Mr Ahern's coalition came to power in 1997, it has amply matched them with astounding rises in public spending, financed—no, not by harsh tax measures or reckless borrowing but by sharp tax cuts, over-high inflation and soaring tax revenues. No wonder all the larger parties have been promising “all kinds of everything”, or that the voters will give Mr Ahern the chance to provide it, maybe even with a single-party government.

Alas for them and him, it can't be done. The good times are over. Even the parties' rival pies in the sky bank on what is, for Ireland, a mere 5% growth. The truth will be still less, say economists, and tax revenues will dip with it. In contrast, spending is still running riot. Over-spending rather. The state has been hurling money at infrastructure and contractors' pockets, with cost over-runs the order of the day. Day-to-day spending is no more in control, and will be in riot mode if promises of “benchmarking”—ie, matching the private sector—for public-sector wages are kept.

And yet Mr Ahern has real achievements. He is not just the lucky beneficiary of a boom due to foreign investment, high sterling (Britain is still the big trade partner) and Irish enterprise. Contrary to Ireland's and Fianna Fail's statist instincts, he has allowed his market-minded finance minister, Charlie McCreevy, not just to slice but to savage income-tax and corporation-tax rates; capital-gains tax too, down from 40% to 20%—with a subsequent (he says consequent) sharp rise in the tax take.

Mr Ahern has also adroitly seconded the British eagerness for peace at any price in Northern Ireland. Thank British flabbiness in the face of the IRA, maybe, but for an Irish prime minister that is a real feather in the cap: the prospect, however distant or unreal, of Irish unity, combined with an all-but end to violence in the north, a change that many in the republic care a lot more about.

Not least, Mr Ahern has survived. Few foresaw his coalition, with the tiny Progressive Democrat Party and a bit of help in parliament from independents, lasting its full five years. But it has, even though a string of grimy scandals from his party's earlier days in power have been uncovered for tribunals to investigate. Yet, at least electorally, none of the mud has brushed off on him, nor, more astonishingly, on his party. On the way, he has also lost—humiliatingly, you'd think—several by-elections and a referendum on the EU's Nice treaty. Yet there he is, confidently facing re-election.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Germany's pre-electoral politics

Conservatives have ideas too

May 9th 2002 | FRANKFURT
From The Economist print edition

The right's Edmund Stoiber launches a chunky manifesto

Get article background

IF EDMUND STOIBER becomes their chancellor in September, what will Germans get? A man less nice than me, suggests Gerhard Schröder, the Social Democratic incumbent. A man more competent than him, replies Bavaria's premier. Just look, says Mr Stoiber, at the mess Europe's biggest economy is in, with high unemployment and the EU's slowest growth.

On May 6th Mr Stoiber said what he would do about this, when his Christian Social Union, which exists only in Bavaria, and the Christian Democrats, the centre-right party elsewhere, published a joint 70-page election manifesto. With nearly 4m out of work, the labour market is a priority. At present, Germans earning less than *euro*325 ($297) a month pay neither tax nor social-security contributions. Mr Stoiber plans to raise the threshold to *euro*400, and to reduce social-security payments on wages below *euro*800.

He also wants to let older workers, and maybe all the long-term jobless, give up protection against dismissal in order to make themselves more attractive to hire. He might also reverse the recent strengthening of the joint union-employer works councils that today's business has inherited from the post-1945 reinvention of democracy in ex-Nazi Germany.

He is promising tax reform too, starting in 2004. The top rate of income tax will be cut to less than 40%; under the present coalition government of Social Democrats and Greens, it is due to creep down to 42% in 2005. The starting rate will fall below 15%, the current government's target. An increase in energy tax, planned for 2003, will be scrapped.

Mr Stoiber also has company taxation in his sights. Mr Schröder's tax reforms, he says, have left partnerships (which pay personal income tax) worse off than incorporated firms (which pay corporation tax); the two should be aligned. Less promisingly, he may reimpose capital-gains tax on the sale of shares held by one company in another, which was abolished at the start of this year.

And he aims to lower social-security contributions, shared between workers and employers and often blamed by the latter as a disincentive to taking on labour. At present they total (on average) 41.3% of gross wages; Mr Stoiber wants that cut to less than 40%, as promised but not achieved by Mr Schröder. The Bavarian proposes that patients should be able to pay less for health insurance in return for lower basic benefits, buying extra treatment if they need it. The share of government spending in GDP, now 48.5%, should fall “step by step and durably” below 40%.

Yes, but can Germany afford it? The European Commission expects a budget deficit there of 2.8% of GDP this year, close to the point at which the country becomes liable for fines under the euro-area's stability and growth pact. Next year, forgoing the extra energy tax alone will cost *euro*3 billion; other proposals, such as the tax-deductibility of some child-care costs, will also hurt the budget. Then come the planned income-tax cuts.

To bring the books back towards balance, Mr Stoiber is pinning his hopes mainly on faster economic growth, helped by his labour-market initiatives, which he says could create between 700,000 and 800,000 jobs. “Higher growth” is an old electoral nostrum in many countries; but in Germany an upswing may indeed already be under way, though not yet showing up in hard figures. The government is hoping for the same—but quickly, please—to help it get re-elected.

Mr Schröder will therefore be more worried than Mr Stoiber by the start this week of one-day strikes over

pay, the first for seven years, by IG Metall, the country's biggest industrial trade union. The union says 63,000 workers in the south-western state of Baden-Württemberg downed tools on May 6th, many of them at DaimlerChrysler and Porsche car factories. It has since held further strikes in that state. Stoppages are also planned in Berlin and Brandenburg next week.

Mr Stoiber blames not the unions, but Mr Schröder. “I understand”, he said on television this week, “if many workers are disappointed and say, ‘I'm worse off than before Schröder was chancellor'.”

Badly enough off to vote for Mr Stoiber? Perhaps. In a citizens' vote for the chancellorship, it is true, polls say that Mr Schröder's combination of serious statesmanship and hail-fellow-well-met charm would do for his stiff Bavarian challenger. But parliamentary seats will decide the outcome—and one poll now puts the centre-right ten points ahead of the Social Democrats, on course to form a coalition with the liberal Free Democrats. There are still four months to go, but Mr Schröder has a fight on his hands.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France's presidential election

Jacques Chirac wins by default

May 9th 2002 | PARIS
From The Economist print edition

The incumbent president plods on, but much depends on his next parliament

Get article background

AP

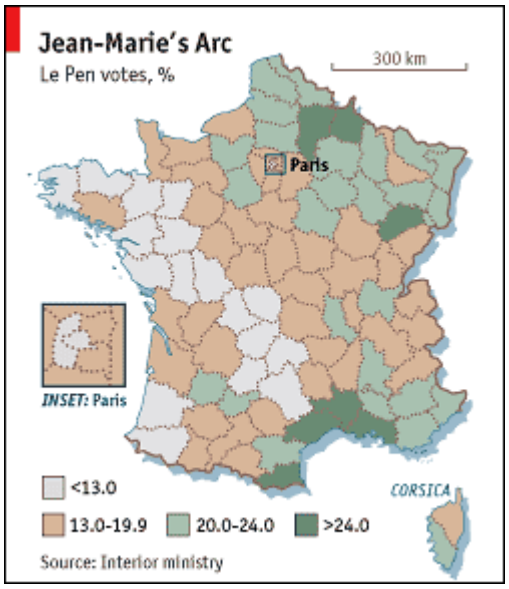
Le Bon Dieu failed Le Pen

“I HAVE heard and understood your call: that the Republic should live, that the nation should reunite, that politics should change.” Jacques Chirac, re-elected president of France on May 5th, chose the right words in his moment of triumph. His margin of victory is the greatest ever in the history of Charles de Gaulle's Fifth Republic—some 82% compared with the 18% of his opponent, Jean-Marie Le Pen, leader of the extreme-right National Front.

Yet just two weeks earlier, in a first round of voting crowded with 16 candidates, Mr Chirac had emerged top with only 19.9% of the vote, a mere three percentage points ahead of Mr Le Pen. In other words, the centre-right Mr Chirac owes his victory not to his traditional supporters but to his traditional, left-wing opponents. “Vote for a crook, not for a fascist” was their rallying cry: for the scandal-tarnished Mr Chirac, not the xenophobic Mr Le Pen.

The challenge, therefore, is for Mr Chirac to make his victory real. After a lacklustre first term of seven years as president, can he now use a second term, of five years, to heal the country's social divisions, soothe its fears and restore its trust in the political establishment?

Perhaps he can, especially if the Union for the Presidential Majority, a newly-formed but not necessarily solid assembly of the various parties of the political right, can defeat the left in the parliamentary elections due on June 9th and 16th. That would give him a genuine popular mandate, rather than the one contrived by the left to defeat Mr Le Pen.



Yet a hard look at the political map shows no room for complacency. However swingeing was the defeat of Mr Le Pen, who had rashly hoped for 30% of the second-round vote, the fact is that in a turnout of almost 80% of France's 41m voters, he was the first choice of more than 5.5m French men and women, 720,000 more than in the first round. Look more closely and the map shows a geographical divide, too: across the whole Mediterranean area of France Mr Le Pen gained the support of at least one in five of the turnout, reaching almost 30% in the south-eastern department of Vaucluse. He scored well, too, in much of the north-east, including the supposed Communist stronghold of the Pas-de-Calais. Draw a vertical line down through the heart of France, and Mr Chirac can count on the west of France but not so much on the east.

So will the extreme right, both Mr Le Pen's National Front and its rival National Republican Movement (MNR) of Bruno Mégret, hold the key to the general election? By splitting the conservative vote, will they punish Mr Chirac and hand victory to the left, so condemning the president to “cohabit” with a left-wing majority in the National Assembly? Mr Chirac must shudder at the prospect. He has just spent a near-impotent five years cohabiting sourly with Lionel Jospin's Socialist-led government—and he knows that in the more

than 70 “triangular” contests in 1997 between parliamentary candidates of the right, the extreme-right and the left, it was the left that most often emerged the winner.

Could history repeat itself? To qualify for the second round in a parliamentary election, a candidate must get at least 12.5% of the first-round votes. Extrapolating from Mr Le Pen's presidential support, the Front reckons that its candidates could reach the second round of at least 237 of France's 577 constituencies. Its voters, claims Carl Lang, the party's secretary-general, are “no longer an electorate of protest but one of true support.”

That arithmetic is, of course, self-serving. The Front and the MNR would like nothing better than to frighten the right into electoral alliances, with one party withdrawing in order to help another. Mr Chirac has always refused such an accommodation with the extreme right, but some of his supporters may not be quite so firm on the issue. As Bruno Gollnisch, a Euro-MP for the National Front, puts it, by refusing electoral deals “Jacques Chirac is ensuring the victory of the left.”

That is debatable. The Sofres polling organisation reckons that as things stand the right should win anyway, with 271-331 of the National Assembly's seats, compared with 232-272 for the left and between just one and three seats for the National Front. On the other hand, pollsters for the newspaper *Le Monde* think that the left will get 297 seats, the right a losing tally of 276, with the Front getting just two. In any event, Mr Gollnisch's implied threat is plainly real enough, as Mr Chirac knows.

Hence the new government, formed this week to fill the void between the departure of Mr Jospin and the June elections. The president has picked as his prime minister Jean-Pierre Raffarin (see article), a centre-right senator whose main attraction is a sense that he is “close to the people”. In turn Mr Raffarin, under the guidance of Mr Chirac and doubtless his former prime minister, Alain Juppé, has formed a government which is deliberately not politics as usual: of the 27 members only six have previous ministerial experience. Moreover, two of them—Francis Mer, a steel-company boss who now becomes the finance and industry minister, and Luc Ferry, a philosopher who now becomes education minister—have no political experience either. By contrast, several who consider themselves political heavyweights on the right, such as Philippe Douste-Blazy, Philippe Séguin, François Bayrou and Alain Madelin, will have to twiddle their thumbs.

For how long is a matter to be decided either by the electors or by Mr Chirac. In the meantime, the president is promising a government with a “mission”, whose “first duty will be to restore the state's authority to fight crime and put France on a new road of growth and employment.”

That can hardly be done by a government which, in the absence of a new National Assembly, has no power to pass laws. But in the run-up to the general election it can at least set the right tone. Mr Raffarin needs to reassure “*la France profonde*” that its worries are not being ignored by a Parisian elite; Nicolas Sarkozy, number two in the government (regardless of protocol) as head of a beefed-up interior ministry, needs to inspire the demoralised forces of law and order; Mr Mer, known for the deftness with which he revamped France's steel industry, needs to reassure both bosses and unions.

The difficulty is to ensure the tone will be adequate. When the Socialists' candidate, Lionel Jospin, was eliminated in the first round of the presidential contest, morale on the left slumped badly. But it may now be recovering, thanks to the part played by the left in defeating Mr Le Pen. The party's modernisers may privately despair: its electoral programme talks of a rise in the minimum wage, an end to privatisation and penalties for firms which shift their operations or “mistreat” temporary workers. But the party's ideologues will argue differently. Mr Jospin's mistake, they say, was to appeal to the centre, so the party must seek victory by going back to the left. Whatever the logic, the composition of the next National Assembly is still unknown—and so are the prospects for Mr Chirac's second term.

Reuters

Lucky old Jacques

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Charlemagne

Jean-Pierre Raffarin, France's new man

May 9th 2002
From The Economist print edition

Will France's inoffensive new prime minister get the right back in charge?

Get article background

PRIME ministers come, prime ministers go. At 4.15pm on May 6th, with a heavy sky threatening rain, Lionel Jospin blew a kiss to his assembled staff, stepped into his car and was chauffeured away to political oblivion. On the steps of Matignon, the elegant 18th-century building that houses France's prime ministers, Jean-Pierre Raffarin gave a half-smile to the cameras and quickly disappeared inside. Unlike Mr Jospin, snubbed by the voters last month in his bid to replace Jacques Chirac as the nation's president, Mr Raffarin had work to do.

How well he does his work is a matter of some import, both for the French in general and for Mr Chirac in particular. Consider the immediate political past. In the crowded first round of the presidential election, on April 21st, Mr Chirac, from the centre-right, came top, but with a dismal 19.9% of the vote; Mr Jospin, a Socialist, came third with 16.2%, and was therefore eliminated. In last weekend's run-off, Mr Chirac won an unprecedented, almost Soviet-style, 82% of the vote—but only because the left joined with the right to humble his opponent, Jean-Marie Le Pen of the xenophobic National Front.

Now consider the immediate political future: a two-round general election is due on June 9th and 16th. If the right wins, its parliamentary majority will legitimise and bolster Mr Chirac in his presidency; if the right loses, he will be condemned to “cohabit” with another left-wing government, just as he was for five years with Mr Jospin. In other words, how well Mr Raffarin performs between now and the general election could make all the difference between a potent second term for Mr Chirac and an emasculated one.

Hence the big question: is Mr Raffarin up to the task? At first glance, perhaps not. Successful French politicians tend to be smooth and elegant; Mr Raffarin, 53, is pudgy and rumpled. Outside his region of Poitou-Charentes, home to France's cognac-makers, he is hardly a household name. And his political career has been steady rather than stellar: president of his regional council since 1988; a member of the European Parliament between 1989 and 1995; minister for small and medium-sized business (on whose behalf he stopped the spread of France's hypermarkets) from 1995 to 1997. Fair enough, but the critics note than none of these posts came through a direct election open to all voters, and on the sole occasion when he did face such an election, in the parliamentary contest of 1978, he lost.

But surely a second glance is called for. After all, President Chirac, for all his defects, is not stupid and has been at or near the pinnacle of political power in France for the past 40 years. And the fact is that the wily Mr Chirac decided to pluck Mr Raffarin from obscurity on May 6th when he could so easily have chosen better-known, better-dressed and (they might well mutter) better-qualified candidates for the job. For example, Nicolas Sarkozy, the ambitious mayor of Neuilly, Paris's wealthiest suburb; or Philippe Douste-Blazy, mayor of Toulouse and somewhat Cassius-like in his leanness; or, most intellectually brilliant of them all, Alain Juppé, the mayor of Bordeaux and President Chirac's first prime minister, from 1995 to 1997. With those and others to choose, Mr Chirac must presumably have some good reasons for picking the unassuming Mr Raffarin.

Indeed so. And the biggest is that Mr Raffarin does indeed look more like a *plouc,* a country bumpkin, than a Paris slicker. He makes a point of saying that Matignon was never his goal: to be a prime minister

was like being a fireman “with a fire breaking out every day”. He preferred to be a “builder”, of schools and hospitals and the other things that tangibly improve voters' lives. Being at Matignon, he said (before he got there), was rather “superficial”; he was “provincial and proud of it”.

Ah yes, a good line to spin when conventional wisdom reckons the French are fed up with being run by an arrogant elite from the Ecole Nationale d'Administration (ENA), the postgraduate school that trains France's best and brightest for plum jobs in government and the public sector. Mr Chirac is an énarque, so too is Mr Juppé, and Mr Sarkozy acts as though he is. Mr Raffarin is not. So he is automatically supposed to be more in touch with the common man and so more able to get his vote.

Don't overdo it, though

Up to a point, maybe he is. Nonetheless, in the late 1970s he was a marketing man for one of France's biggest coffee companies, Jacques Vabre, and for most of the 1980s he worked in a public-relations company. For all the surface humility, France's new prime minister graduated in Paris from one of the nation's best business schools, comes from an old-established political family (his father, Jean, was a junior agriculture minister in the 1950s) and has methodically constructed his political career, first as leader of the “Young Giscardians”, supporting President Valéry Giscard d'Estaing in the 1970s, and latterly as a loyal follower of Messrs Juppé and Chirac. Even though Mr Raffarin is deputy leader of Alain Madelin's free-market Liberal Democracy party, he chose not to support his doomed bid for the presidency. Instead, he helped form the Union for the Presidential Majority, a gathering of rival right-wing parties designed to forestall yet another cohabitation.

Mr Raffarin's asset is not just that he has the common touch, but that so many of his peers underestimate him. Perhaps, between now and next month's election he will find the right words—even the right policies—to convince voters to give Mr Chirac the majority he craves.

And who will be most grateful? Cynics say it will be Mr Raffarin's friend, Mr Juppé. After all, the theory goes, what Mr Juppé, with Mr Chirac's blessing, really wants is to be president in 2007. Who better, in the meantime, than an inoffensive, unambitious prime minister to keep Mr Juppé's rivals on the right in their place?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Broadcasting bill

Guess who's coming to dinner

May 9th 2002
From The Economist print edition

The new communications bill looks designed to stop Rupert Murdoch from dominating British television. It may not succeed

PUT a bunch of British television bosses together in a room and they will be sure to whinge about one thing: over-regulation. So the news on May 7th that the government's draft communications bill will free up the television industry far more than had been expected ought to be welcome. Yet the reason for some nervousness in British televisionland this week is that the upshot could well be the swallowing up of Britain's biggest commercial broadcast network by a foreign company.

Parts of the draft bill, which should become law next year, had been expected. Commercial radio will be deregulated. Radio owners will be able to buy TV stations, and vice-versa. And the creation of a single ITV company will be allowed. So Carlton and Granada, the two main holders of the ITV franchises, may now merge.

This week's surprise, however, was two-fold. The bill drops a rule preventing large newspaper groups buying either Channel 5, a minor commercial broadcaster, or radio stations. This opens the way for a bid for Channel 5 by BSkyB, Britain's biggest pay-television operator, controlled by Rupert Murdoch's News Corporation, whose News International owns the *Sun*, the *Times* and the *Sunday Times*.

The draft bill also ditches a separate rule that stops non-European companies buying into British broadcasting. “It makes no sense that French, Italian or German companies can own TV and radio licences but Canadian, Australian or US companies cannot,” said Tessa Jowell, the culture minister. American media giants, such as AOL Time Warner, Disney or Viacom, may now join the queue alongside any European group for the rare chance to bid to take over a biggish European commercial broadcaster—and at a relatively low share price.

Until now, the most likely bidder for a single ITV had been Bertelsmann, a German media group which owns RTL, the only pan-European broadcaster. While RTL already controls Channel 5, ITV is a far more sparkling prize. Its share of viewing is nearly four times that of Channel 5, and it grabs over half of all TV-advertising revenues. Better still, now that the two ITV companies have closed down ITV Digital, their loss-making pay-TV operation, the business looks more attractive—and could well still tempt Bertelsmann.

Yet the strategic sense behind a merger of RTL and a single ITV is not as strong as it might appear, because the economies of scale in pan-European broadcasting are not self-evident. The acquisition of the rights to American films or TV programmes, or for sports, for instance, is still done country by country.

So is the sale of advertising air-time. Moreover, French, Italian or German viewers tend to prefer local content to anything foreign; their top TV shows are dominated by local soaps, dramas and quiz shows. Few programmes travel well around Europe.

Would it make any more sense for an American media group to buy ITV? While Disney and Viacom have expressed no particular interest in an overseas broadcaster, AOL Time Warner has—albeit in less harsh economic times—declared ambitious overseas expansion plans. Only last year, for instance, it snapped up IPC magazines, a British publisher of such titles as *Loaded* and *Marie Claire*.

Certainly, content is more readily transferred from America to Europe than around Europe. As Greg Dyke, director-general of the BBC, once put it: “There are only two sorts of programming around the world: indigenous and American.” Although British TV broadcasters are proud that the days when “Dallas” and “Kojak” filled British prime-time are over, much of the clever TV drama these days comes from the big commercial American TV producers: “The West Wing” (Warner Brothers), “24” (Fox), “The Sopranos” (HBO, part of AOL Time Warner), “Six Feet Under” (HBO), “Sex and the City” (HBO). Were one of these American TV giants to own ITV, such classy stuff might gain more prominence in the prime-time schedule.

Further production synergies remain unproven, however. The British government itself said this week that part of the justification for opening the TV market to foreigners was to bring new skills and ideas into the industry. Possibly, an American content provider like AOL Time Warner could use its deep pockets and access to the Hollywood studios to help make decent drama or funny comedy tailored to the British market.

The irony is that the best strategic fit for ITV would be with Mr Murdoch's News Corporation. In America, News Corp has combined a broadcast network (Fox) with a family of pay-TV channels and repackaged content across them. For instance, by showing “24”, a well-crafted drama set in a counter-terrorism unit, both on its network, and again through the week on FX, it has lured new viewers to the network show—and boosted its ratings.

Given that, in Britain, Mr Murdoch already controls both a pay-TV operation and a family of pay-TV channels (Sky One, Sky Sports, and much, much more), he could do similar cross-promotion were he to own ITV. A broadcast network might also give him more clout in negotiations over acquisitions, which in turn could be of benefit to the viewer.

Yet this week's draft bill retains one rule generally believed to be designed to keep Mr Murdoch's hands off ITV: it is not for sale to any newspaper group with over 20% of the national market. That said, were Mr Murdoch to get hold of Channel 5, there is no intrinsic reason why he could not turn a minor British broadcaster into a major one. After all, in America everybody said that there was no room for a fourth broadcast network. Yet Mr Murdoch went on to build one—Fox—from scratch.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Gibraltar

True Brits

May 9th 2002 | GIBRALTAR
From The Economist print edition

Gibraltarians still want to be British. So do some Britons

PATRIOTISM is a risky credo in modern Britain, liable to be confused with xenophobia or worse. In any case, many Britons are unsure about what, in a post-imperial world, they have to feel patriotic about. Passionate intensity about Britishness is most evident in a few satellite communities clinging tenuously to the mainland: Ulster; the Falkland Islands; and, most peculiarly, Gibraltar, a Lilliputian colony at the southern tip of Iberia.

Like many petty disputes, Gibraltar, with its 30,000 inhabitants and tribe of Barbary apes squeezed under and on to a gigantic limestone rock, has inspired centuries of rancour. Spain ceded Gibraltar to Britain in 1713, and has been trying to get it back ever since. As the two countries are now European and NATO allies, their feud over Gibraltar has become an embarrassing diplomatic inconvenience. The two governments are currently trying to conjure up a sovereignty-sharing formula that will satisfy Spanish pride.

The problem—proclaimed by the swarm of Union Jacks that adorn Gibraltar's buildings, and the thousands of protesters who berated Britain's foreign secretary when he visited last week—is that, unlike most colonies, the Rock wants to remain one. Peter Caruana, the chief minister, points out that “Britain does not have its foot on our collar”. Still, given that its inhabitants are descended from Genoese, Maltese, Jewish and sundry other immigrants, this devotion to the Crown seems a little odd. “Britishness”, says Michael Ancram, the pro-Gibraltarian shadow foreign secretary, poetically but vaguely, “is in the heart”. Why all the flag-waving?

First and foremost, being British means not being Spanish. Adult Gibraltarians remember the Franco years, the vindictive closure of the border from 1969 until the 1980s, and the ongoing petty harassments inflicted by Madrid governments. True to form, during the current negotiations the Spaniards have made their aspiration to full sovereignty all too clear—though even the token Spanish role envisaged by Britain is anathema to most Gibraltarians. The calumnies heaped upon the Spaniards are suitably ancient (they are reputed, among other things, to be diseased, criminal and lascivious). A taxi driver says that, if Spain takes over, he will kill himself (though he later says he may just move to Margate).

Many mainland Britons, of course, harbour a similar, if less extreme, suspicion of volatile continentals. But Gibraltarian patriotism has a positive side as well. It is, says the editor of the *Gibraltar Chronicle*, a “Tory backbench Britishness”, consisting largely in antiquated values such as loyalty and fair play. Younger Gibraltarians, who oscillate between English and Spanish, seem just as attached to the mother country: they will all, says one who is studying at Southampton University, support England in the World Cup. Satellite television and the Internet have made it much easier for them to keep in touch.

If patriotism is the criterion, Gibraltarians can—and do—justly claim to be more British than the British. But the Rock suggests that some Britons quite like the idea of being British as well.

These days, Ministry of Defence spending accounts for around 7% of Gibraltar's economy; in 1984 it was 60%. Along with financial services and the port, tourism has helped to fill the void. Millions of visitors, many of them British, cross over from Spain every year. Some are perma-tanned British expats, stocking up on cigarettes and alcohol made cheap by Gibraltar's tax exemptions. But they also come for the pantomime Britishness of Gibraltar's red phone boxes, policemen's helmets, familiar shops, heart-attack food and profusion of pubs. Elderly hotel guests can enjoy the fag-end of empire, without being

terrorised by drunken yobs. Patriotism can be indulged like a shameful occasional fetish.

As well as nostalgia and imperialism, Gibraltar also offers British visitors a chance to feel beleaguered, which they tend to enjoy just as much. According to Gibraltar's constitution, its voters have the final say over any changes to its sovereignty. In a referendum in 1967, only 44 of them wanted to do a deal. Nevertheless—and as with the euro referendum on the mainland—many people fear that they will be cajoled into submission. So, several visitors say, they have come to see the Rock before it goes the way of Hong Kong.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

English regional government

Morpeth's grouse

May 9th 2002 | NEWCASTLE-UPON-TYNE
From The Economist print edition

Plans for elected regional assemblies sound more radical than they are

Reuters

Prescott broadcasts his plans

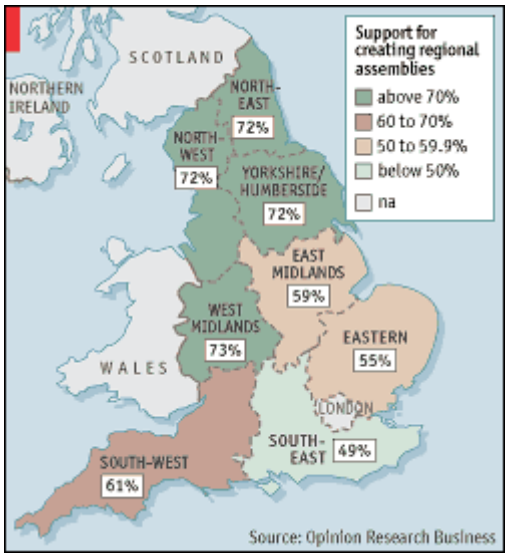
NORTHUMBERLAND, six hours' drive north of London, is as far away as you can get from the capital and still be in England. At Morpeth, the county town, the dual carriageways of the A1 give out. The remaining, mostly single-lane, road north, is hedged with grim signs telling of the recent death and injury toll along the route. “Does anyone think that if we had our own regional government, that the A1 would not have been dualled by now?” says Michael Davey, leader of Northumberland County Council.

Mr Davey, like many in north-east England, has been keenly awaiting the government's White Paper on English regional government. Published on May 9th, it promises elected assemblies for those regions which show they want one in a referendum. John Prescott, the deputy prime minister and architect of the plan, hopes that there will be at least one, if not two, such referendums before the next election.

Politicians in the region are acutely conscious that they have much less power than their counterparts in Scotland, just an hour away. Scotland has its own cabinet member, the Scottish secretary, as well as its own devolved parliament and government. And it gets more public spending. “I tell you this, if Scotland decided to annexe Northumberland, we would welcome it,” says Mr Davey, his tongue only partly in his cheek.

That helps to explain why public support for assemblies increases with distance from London (see map). But Mr Prescott is promising neither any extra money, nor much power. A north-east assembly, for example, would gain control over about £350m of existing spending and have some sort of say over how another £500m is spent, about 11% of all government spending (excluding social security) in the region. They may have some minor tax-raising powers: that's been left fuzzy.

Part of the problem with the plan is that the assemblies' powers have been decided not by rational argument but by Whitehall battles. Some ministries, such as trade and industry, have conceded ground. Others, like education, have clung limpet-like to power. So control over the regional development agencies (RDAs), bureaucracies which hand out some state cash, will be devolved, as will regional housing budgets. But power over the training work of Learning and Skills Councils, which would sit most sensibly with the RDAs, stays in London.



The package is unlikely to satisfy many because it falls between simply transferring bureaucracy from a national to a regional level and handing over enough power to make a real difference and to please ardent regionalists. Ministers acknowledge that although the assemblies will be a bit more powerful than the Greater London Assembly, they would be puny compared with the Scottish and Welsh bodies.

The London comparison may persuade regional voters it is better to have something than nothing at all. Business interests, however, are sceptical. Stephen Rankin, director of CBI North-east, says businessmen worry that elected assemblies would hinder rather than help them and would over-politicise the RDAs'

regeneration work. Even so, there are some signs that businesses, which have generally decentralised their own management in recent years, think the government should do likewise. A recent survey of businesses in the north of England by the Regional Policy Forum, a lobbying body, found that a majority thought elected assemblies were a good idea in principle.

Mr Prescott hopes business sceptics will be persuaded that there will be less rather than more bureaucracy. He says that the assemblies will have no more than 35 elected members and about 200 staff, and that a local government tier—either the counties or the districts—will have to go.

However, the weakness of the new regional power structures may ultimately be their undoing. They are likely to spend a lot of time and energy annoying ministers by demanding more power and money. For example, RDA chairmen were already lobbying Tony Blair last month for regional control over Learning and Skills Councils. And even a north-east assembly won't have the money or the clout to dual the A1. If the proposed regional assemblies fail to get the kind of power that matters, voters may conclude they are a waste of time, making it easy for a future government to abolish them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Local election results

A plague on all your houses

May 9th 2002
From The Economist print edition

Voters used the local elections to punish incumbents and major parties

LABOUR'S evident relief that it did not do particularly badly in the local elections is misplaced. Looked at closely, the results have a European flavour: voters were hitting out at the political establishment.

Down with incumbents

Mean change in vote share since 1998

Council controlled by	Con	Lab	Lib Dems	Others
Conservative	0	-3.3	2.1	*
Labour	1.3	-5.7	1.7	2.6
Liberal Democrats	1.2	3.8	-5.5	0.6
No overall control	0.1	-3.7	-2.0	1.8
All	1.1	-3.7	-0.2	2.0

*Too few wards from which to calculate a figure

Source: *The Economist*

Superficially, things turned out reasonably well for Labour. In the sample of provincial English districts whose results are regularly collected by *The Economist*, its vote was down by four points on average compared with 1998 (see spreadsheet). But that was when Tony Blair was still enjoying his honeymoon; their vote this year was a three-point improvement on Labour's performance two years ago. Only London, where Labour's vote fell by six points, and which is stuffed with marginal constituencies, gave any real cause for concern.

In the Tories' first major electoral outing under Iain Duncan Smith's leadership, there was little sign of advance. The Tories' vote was up just a point or two across provincial England compared with its first election under William Hague's leadership four years ago. And it was actually down—by three-and-a-half points—on its tally in 2000. None of this suggests that the Tories profited from any disappointment voters may feel about Mr Blair.

But if voters did not send a protest note to Downing Street, they did send one to their local town hall. All three main parties often suffered a setback where they were in control locally (see table). For example, on average Labour's vote fell by nearly six points compared with 1998 where they controlled the local council, compared with no more than a three- or four-point drop elsewhere. Even the Conservatives could do no more than hold their own in the districts they were defending.

But voters were apparently not just unhappy about their local council. They also appeared to be unhappy about the options provided by all three of the nation's main parties. Support for minor parties, on both the right and the left, rose.

The British National Party's success in Burnley, where it captured three seats, was the most spectacular result of the election. The party got double-digit votes in many other places too. The victories of independent candidates in the mayoral contests in Hartlepool and Middlesborough also caught the eyes of the headline writers, not least because the winner in Hartlepool campaigned as his town's football mascot, a monkey.

Voters' willingness to desert the major parties did not stop there. The Greens won an average of no less than 8% of the vote in wards where they stood, their best performance since the heyday of their third place in the 1989 European elections. And candidates of the far left won an average 6% too. Overall, the vote for minor parties rose by two points to 7.6% in provincial England, and by more than three points to no less than 9.2% in London.

The minor parties' success follows upon a record score in the 2001 general election as well as a string of saved deposits in parliamentary by-elections. These local election results thus provide a clear warning to Britain's political establishment that if voters continue to face a choice between a disappointing government and a less than credible opposition, they may well turn to alternatives.

Turnout rose in provincial England by four points to around a third, but fell by two points in London to a

record low. And hopes that voting over the Internet or for directly-elected mayors would bring voters to the polls were dashed too. Not much comfort for politicians there, either.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Road pricing

Charging by satellite

May 9th 2002
From The Economist print edition

Road-pricing trials are under way, but ministers are keeping quiet about it

EPA

Beam me up, Scottie

WHENEVER government ministers are asked publicly about making motorists pay for the use of roads, they distance themselves for fear of being labelled anti-car. But the minister for transport, John Spellar, goes much further, privately accusing the government-funded Commission for Integrated Transport, which supports road pricing, of pursuing a “narrow anti-motorist agenda”.

What is actually happening behind the scenes in Whitehall bears little relation to what ministers are saying. The Department of Transport has just commissioned a big research project into a state-of-the-art satellite charging system, which could revolutionise the way motorists pay to drive. The £22m project, which has not yet been announced by the government, involves a consortium of engineering and technology companies.

The trial, known as DIRECTS, will test the practicability of developing a satellite charging system for the whole of Britain's road network. It will involve a small number of cars equipped with global positioning satellite receivers. The GPS technology will track the vehicle, which can then be charged according to the route taken and the time of day. Rush-hour travel in congested urban areas could, for example, be charged at 20 times the rate of non-peak rural journeys, via deductions from a smart card which motorists could top up at petrol stations or post offices.

The trial is intended simply to put the technology through its paces. No money will change hands and there will be no attempt to modify driver behaviour. But the aim is to demonstrate to local authorities that such a high-tech system can operate effectively to restrain congestion.

So far 35 local authorities have begun talks with the Department of Transport about introducing local congestion charges. London's mayor, Ken Livingstone, has announced he will impose a £5 charge from next January on cars entering the centre of the city. But this plan now faces a challenge by Westminster City Council, which could delay its introduction.

The chairman of the Commission for Integrated Transport, David Begg, claims that a more ambitious nationwide charging scheme could reduce congestion by up to 44% without any overall increase in motoring taxation. To achieve this, the commission says that rush-hour travel in London should be charged at 45p per mile, motorways at 3.5p per mile and rural roads at peak hours 1p per mile. Fuel taxes could then be reduced by as much as 10p per litre while the £160 annual road tax could also be scrapped.

It is not surprising that ministers are keeping quiet about this. Almost everything to do with transport is painfully sensitive. The news that the prime minister's wife chaired a Downing Street seminar on transport policy earlier in the year does not surprise Whitehall observers. “Cherie”, says one, “has nothing to lose.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Digital broadcasting

Used spectrum, anybody?

May 9th 2002
From The Economist print edition

Even after the collapse of ITV Digital, the government is determined to switch off the analogue broadcasting signal. It is not clear why

ANYBODY interested in taking over the airwaves that are going begging after the collapse of ITV Digital should get in touch with the Independent Television Commission, the television regulator, by May 16th. Five years ago, the licences to operate the three abandoned digital terrestrial multiplexes, capable of delivering 15 or so channels, were bitterly fought over. Now, it's possible that come next week not a single envelope will be lying on the ITC's mat, even though the spectrum is free.

Until now, the government has been keen to brag about digital television. Britain lags much of the civilised world when it comes to broadband Internet access—only 500,000 homes have such a connection—but over 9m out of 22m households have digital TV. The government says that within eight years enough people should have gone digital for it to switch off the old analogue transmitters and auction the remaining spectrum. But the implosion of ITV Digital, after it bet £315m on the charms of second-rate football, has made that even less likely.

The reason for the unseemly haste in getting someone to fill this vacuum is that ITV Digital gave away 1m digital decoders with its subscription packages and the administrator now wants them back unless another broadcaster is prepared to make him an offer (about seven or eight quid for each £200 box should do it). The ITC fears that if the boxes are yanked out of every home by the bailiffs, digital terrestrial television (DTT) could take years to recover.

This might not worry many consumers. DTT's problem is that it cannot offer the hundreds of channels available on cable or satellite. Surveys suggest that around 65% of the population wants lots and lots of channels, while the rest is not that bothered. In other words, most of those who want multi-channel television don't see the point of DTT.

However, as the ITC makes clear, the government is not going to let DTT fail. It would prefer the 12-year licences to go to a commercial broadcaster, but failing that, the ITC will thrust the orphaned spectrum into the waiting arms of the BBC, which has one multiplex of its own already. With the range of free-to-air digital channels the BBC already broadcasts and the arrival in the shops last month of £100 set-top boxes, the government not only reckons that DTT can be kept alive, but is obstinately sticking to its timetable for analogue switch-off.

The government's determination seems odd. Few believe there's much appetite for the spectrum the government wants to sell off. The mobile phone operators, who two years ago gave the Treasury £22 billion for capacity they still haven't a clue what to do with, are unlikely to bite again. It's equally odd that the government should think it important to provide multichannel television to people who aren't interested in it. Despite the hype about interactive TV's ability to bridge the digital divide and the educative value of some channels, the truth is that digital TV is just more telly, and, as such, unlikely to make Britons either cleverer or richer.

Finally, the government must know that the condition it has set for switching off analogue—95% of consumers must have access to digital equipment—is both insufficient and unattainable. Even supposing the 35% of the population who say they don't want extra channels had been persuaded to buy a set-top box, there is still the little problem of all those second and third televisions that end up in bedrooms and kitchens. The majority, not to mention video recorders, are still likely to be analogue. It would take a brave government to tell voters that it was making anything up to 50m television sets obsolete and a pretty silly one to spend billions on handing out free set-top boxes to people who don't feel like buying them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Parking

Toad strikes back

May 9th 2002
From The Economist print edition

Poop, poop! Motorcyclists have found a way to defeat parking wardens

Suzy Connolly

Bikers' liberation front

"LOVELY Rita, meter maid, where would I be without you?" Despite the Beatles' lyrical account of the attractions of parking wardens, relations between London motorists and the species have never been cordial. Their continuing battle of wits, marked by frequent curses and the odd shouting match, has long been a feature of urban guerrilla warfare. Invariably, the motorist comes off worse, having to pay a fine or, worse still, having his vehicle towed away.

But a new tactic in this long-running stand-off has been found, which has left the authorities, at least temporarily, in disarray. Riders of scooters and motorcycles have discovered a way of parking illegally without getting a ticket.

The trick, which is rapidly gaining popularity in the centre of London where parking is scarce, is to cover the number plate with a cloth. This prevents parking wardens writing out a ticket, because they are forbidden to touch the vehicle; and without a number plate, they have no way of identifying the offending vehicle. Any car-owner trying this trick would swiftly find their vehicle clamped or towed; but clamps have not been designed for motorbikes (yet), nor can they be towed away.

Those who engage in this ingenious, if nefarious, dodge also remove their vehicle's tax disc, the only other means of identification, claiming by way of defence that if they left it on the bike it would be stolen. Parking wardens confronted by an illegally parked motorbike or scooter can, in theory, call for help from the police. But as they are thin on the ground and busy with more serious offences, this is hardly practical. The Metropolitan Police say they have not been called on to assist. "We have never heard of this," said a spokesman.

Alan Clark, head of parking for Westminster, says grimly that his council is talking to the police, and that counter-measures are in the pipeline. But for the time being it seems two-wheeler owners can park without penalty almost wherever they like. Don't try it, however, outside one of the royal palaces. The police blew up your correspondent's scooter some time ago on the grounds that it was a suspected terrorist vehicle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

Time for a little ginger

May 9th 2002
From The Economist print edition

The Liberal Democrats are under-performing because they have been too pleased with themselves

Get article background

IMMEDIATELY after last week's local government elections all three major parties managed to draw some limited satisfaction from the results. Labour had hung on to some of the councils in its heartland that were supposedly under threat. The Tories just about succeeded in hitting the very modest targets they had set themselves—a triumph at least for the management of expectations. The Liberal Democrats made some impressive gains, but also suffered unexpected reverses. There seemed to be something there for everybody.

But in the days after the poll, the body language of the three party leaders told a different story. The prime minister had more important things to think about; Iain Duncan Smith, the Conservative leader, had the relieved air of someone who's just scraped a pass in a tricky exam; Charles Kennedy, the Lib Dem leader, looked distinctly hangdog. Mr Kennedy has lost weight recently, which makes him seem gaunter and less convivial than in more carefree days. But he may also be suffering from the realisation that his party has failed to sustain the momentum it had after last year's general election.

Although he's putting a brave face on it, Mr Kennedy is a bit puzzled about why his party isn't doing better. After all, the Lib Dems see themselves as the party that has most to boast about in local government. They also believe that they have won the most important debate in British politics: after years of arguing that the public services were under-funded and that people were ready to pay more in taxes to put them right, Labour and even the Conservatives now seem to agree.

After the election last year, Mr Kennedy was wont to claim that the Lib Dems were on the verge of taking over from the Tories as the effective, if not the official, opposition. Although this was pushing it—they had only won 18.3% of the votes (compared with the Tories' 31.7%) and had 52 seats (compared with the Tories' 166)—it wasn't entirely ridiculous either. While the Tories, after another shattering defeat, had to reinvent themselves, the Lib Dems at least had a more or less credible centre-left critique of New Labour ready to roll.

According to that critique, the government was timid (about the euro and public spending), over-controlling (addicted to setting national targets, centralising anything that moved, unwilling to reform Parliament), illiberal (in its response to September 11th and police reform), naively infatuated with business (sleaze plus ill-judged private finance initiatives and public-private partnerships). After the tentative radicalism of Labour 's first term—the minimum wage, Scottish devolution and some of Gordon Brown's attempts to put welfare-to-work ideas into practice—the second term would be characterised by a dreary “big tent” orthodoxy that a politician as nimble and intuitive as Mr Kennedy would be able to exploit. As for the Tories, with their near-suicidal choice of Iain Duncan Smith as leader, they would marginalise themselves as a foaming-mouthed Europhobic sect.

The best-laid plans

Except that it hasn't happened. Labour has startlingly redefined itself with its reckless bid to rescue the health service come what may. Not even the Lib Dems think that any more money could usefully be spent on the NHS. Nor are the Conservatives doing what was expected of them. Although their new emphasis on the “weak and the vulnerable” provokes sceptical smirks—Mr Kennedy penned a sneering article about a well-publicised visit to a desperate Glasgow housing estate by the Tory leader—their

refusal to say much about the euro until a referendum looms has been impressively disciplined. The intelligent probing of the government's inconsistencies by the likes of Oliver Letwin and Michael Howard is working well. It was indicative of how far the Tories have come that when Ann Winterton, a shadow cabinet member, told a racist (and spectacularly unfunny) joke at a rugby club dinner, Mr Duncan Smith promptly sacked her. By contrast, the Lib Dems have looked just a bit smug.

With any kind of Tory revival likely, at least in the first instance, to be at the Lib Dems' expense rather than Labour's, coasting, which the laid-back Mr Kennedy has often been accused of since he took over from his hyperactive predecessor, is not an option. Mr Kennedy suspects that what may be missing is a little intellectual pizzazz. “Our party is at its best,” he says, “when it is a ferment of ideas.”

Well, sort of. Although Mr Ashdown had an insatiable appetite for new policy initiatives and an admirably open mind, the party itself was a good deal less intellectually curious. Many of the people who became Lib Dems via the Social Democratic Party, a right-wing Labour splinter inspired by enthusiasm for the social market, turned in frustration to the ideologically crunchier Tories, while others drifted back to Labour and into the welcoming arms of Mr Blair. One consequence of this migration and of their success in local elections is that the Lib Dems have increasingly come to sound like the voice of local government, their power base—and, by extension, of the public sector unions who are fighting against public-service reform.

While Mr Kennedy doesn't wholly accept the criticism, he is trying to do something to address it. That very Lib Dem thing, a commission, has been set up by Mr Kennedy under a former economics journalist, Chris Huhne, a member of the European Parliament, to come up with ideas for improving the public services. It looks as though the commission will try to challenge the party, pushing it in the direction of a much more rigorous approach to public-service reform that will include a good deal of competition between providers.

Mr Kennedy is not a “back me or sack me” kind of leader. He talks about asking the party the right questions and even encouraging dissent. That's fine, but he needs to do something to shake his party out of its complacency. And quickly.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Country managers

From baron to hotelier

May 9th 2002
From The Economist print edition

Central business divisions have more power in multinationals than local managers do. But the pendulum may be swinging back

IT USED to be rather like being an ambassador. One of the juiciest jobs in many multinationals was that of country manager—running Australia, say, or Brazil. With all the might of Ford or Coca-Cola at your elbow, you were a power in the land. And for the people who developed the product back home, you were the gateway to their overseas markets. Even relatively young companies had these local grandees. As Mark Jarvis, chief marketing officer at Oracle, remembers, “it was like medieval England: the barons were much more powerful than the king. As a result, we had a lot of little companies aligned under a single name.”

In the mid-1990s, however, many companies cut these barons down to size. Malcolm Williamson, now chief executive of Visa, was then running Standard Chartered, a British bank. He recalls that many overseas branches regarded head office “as a pain in the neck”, and followed their own lending policies, sometimes with dire results. He gave business directors profit-and-loss responsibility across the group, allowing them to call the shots instead.

Consumer goods and chemicals went the same way. Procter & Gamble cut the country manager's role and handed all strategic questions about brands to new global divisions. Dow Chemical created global business divisions to take responsibility for investment and market development. At Oracle, says Mr Jarvis, dethroning the barons created order. “Our human-resources department found that every country had a different employment contract, and so our legal department had to deal with each one separately. Oracle France had a different logo from Oracle UK. If Michelin dealt with us in France and Germany, it was treated as two customers. The support organisations in different countries didn't talk to each other.”

Everywhere, the revolution caused uproar. Local managers squawked furiously at being (as they saw it) reduced to the role of hotel-keeper for visiting business-division bosses. Some companies suspect now that they went too far in the quest to build a truly global company. They are seeking to give more responsibility back to local managers: to make them “glocal”, as Mr Williamson puts it.

Think glocal

There are several ways to rebuild the country manager's role, as Michael Goold, of Britain's Ashridge Strategic Management Centre, argues in a new book*. The main thing, he says, is to define the scope of the job clearly. Visa has tried to do that. Mr Williamson has centralised in California the responsibility for brand, risk and interoperability—three core concepts. Almost everything else is regional. But Visa is a different business from Procter & Gamble. There, getting the structure right has been much harder, as P&G's Kerry Clark readily admits. “This is an area we've been struggling with,” he says. “Most companies like ours are matrixes of regions and product lines. We've been flexing our models.”

P&G's new model differentiates between high-income and low-income markets. In richer countries, the business unit has main responsibility for profits and the allocation of resources; in poorer countries, such as China and Eastern Europe, it is the regions. The reason is that markets in poorer countries tend to be tougher and less familiar. So country managers need more clout over sourcing and the flow of goods as well as over marketing.

However, that is not the end of the story. When consumers use an identical product in similar ways all over the world—as with a shampoo such as Pantene—it makes sense, says Mr Clark, to allow the global unit to take most decisions about production and sales. With other products, such as laundry detergents, local habits may vary more. So P&G has created business teams that are organised by product line within an individual country. In Germany, where P&G has been hit by competition from Henkel, the local giant, a local team oversees the market for laundry products, working with the division responsible for laundry products throughout Western Europe.

Such head-spinning complexity is the result of trying to be globally efficient and locally sensitive. Dow Chemical, as a capital-intensive industry, has made a smaller concession to reviving the voice of the regions. When Michael Parker took over as chief executive 18 months ago, the company decided it needed to give more weight to local managers. Luciano Respini, president of Dow Europe, was accordingly given a seat on the operating board, to represent the geographic divisions. However, he is hugely outnumbered by the business managers, with eight seats, and representatives of such functions as public affairs and human resources, who have six.

Dow found that the need for a powerful local management was especially strong for a group of plants the company owns in eastern Germany that have required vast investment and government aid. This is not surprising: most countries insist on having somebody on the ground who is responsible for regulatory matters and can talk to government officials. Bart Groot, who runs this BSL complex, has had exceptional power to take local decisions. He argues that the German political authorities still expect to talk to a local corporate leader. “I need to be able to open doors,” he says.

Accenture, a large consultancy, has also rowed back from the new structure that it created in 1997. This turned the traditional matrix on its head: five global divisions covered areas such as financial services and industrials; each had its own separate regional organisation. “It made life very complicated,” recalls Vernon Ellis, vice-chairman of Accenture International. The consultancy's new structure is based around 12 regions, which he co-ordinates. Judged by the relatively low level of noise accompanying this latest change, Mr Ellis thinks it is “as good as we can get”.

Information technology is making it easier to connect country and business managers. One way, explains John Quelch, professor of marketing at Harvard Business School, is by allowing locally based managers to learn from one another and to exchange ideas. But it is also easier for the centre to extract speedy information from the periphery. Oracle has perfected this: by giving all country bosses a daily ranking for their country on revenue per head or expense control, it encourages them to compete against each other.

Oracle has also noticed that judicious centralisation can offer local freedom. “Once we have a standard set of global business practices, the country can be allowed more scope for decision-making within the broad framework,” says Mr Jarvis. “They can decide whether to promote one product over another; but I decide the overall presentation of a product.”

Even with such freedom, the power of country managers will probably never fully return. That worries Dow's Mr Respini, who believes that the downgrading of the job removes a ladder by which non-Americans once reached the upper heights of American multinationals.

Nor does it end the basic contradictions of the job. Jeffrey Garten, dean of Yale School of Management, once set up the Tokyo office of Shearson Lehman, an investment bank. “Trust is the only way you can have any influence over product managers,” he argues. “They have global profit-and-loss responsibility, so all they care about is sales.” You have to be two people—influential in the country you work in, but an insider in your company. “It's hard if you're American; worse if you're German; if you're Japanese, you can't do it.”

---

* “Designing Effective Organizations: How to Create Structured Networks” by Michael Goold and Andrew Campbell. Published by Jossey-Bass.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese telecoms

Foreign adventures

May 9th 2002 | TOKYO
From The Economist print edition

NTT DoCoMo's foreign ventures have problems. Can it still succeed at home?

ALTHOUGH it was equally disappointing, NTT DoCoMo's performance last year was in some ways the converse of corporate Japan's. As domestic deflation sucked the earnings out of most Japanese firms, car makers and a few others with overseas exposure were spared. By contrast, DoCoMo, Japan's biggest mobile-telecoms company, enjoyed a strong year at home, only to see foreign disasters wipe out its earnings. After making a net profit of ¥365.5 billion ($3.31 billion) the previous year, DoCoMo announced on May 8th that it had barely broken even in the year to March. And, without the usual boost from its DoCoMo subsidiary, NTT's overall telecoms group is expected next week to announce the biggest annual loss of any non-financial firm in Japanese history.

NTT is, of course, keen to persuade investors that the future will be cheerier, and in April it released a new three-year business plan. It promises restructuring at its two big regional operators and a sharper focus on the links between mobile telephones and the Internet. Analysts especially like NTT's plans to halt all new capital spending on its fixed-line business. It will be investing more in broadband, but it plans to cut annual capital spending by 15% over the next three years, to ¥2.2 trillion. Even so, if DoCoMo cannot shake off last year's capital losses, the NTT group as a whole will be in trouble.

Those losses reflect the same euphoria over telecoms that led to furious overbidding for third-generation wireless licences in Europe and excessive fibre-optic investments in America. In DoCoMo's case, the splurge took the form of equity stakes in foreign partners (see table). When share prices of telecoms firms plummeted, DoCoMo incurred combined capital losses of ¥812.9 billion on those investments.

DoCoMo's boss, Keiji Tachikawa, says that, after writing off those losses, his firm can still do well abroad. Its i-mode service, which delivers web content to mobile telephones, was launched in Germany in March and the Netherlands in April. It is too soon to gauge its popularity, but Mr Tachikawa argues that early introduction will favour i-mode when third-generation (3G) telephony finally catches on, boosting demand for mobile web content.

Where the money went

NTT DoCoMo's capital losses from foreign affiliates

	Stake, %	Loss, year to March 2001, ¥ bn
AT&T Wireless Services *United States*	16	505.6
KPN Mobile *Netherlands*	15	262.7
KG Telecommunications *Taiwan*	21	30.5
Hutchison 3G UK *Britain*	20	14.1

Source: Company reports

Still, investors are paying less attention to DoCoMo's overseas ambitions than to its domestic market, long the envy of foreign rivals. Its strength here is not just the high penetration rate of mobile phones. It also benefits from its ability to prod manufacturers into cranking out advanced new handsets, and the willingness of Japanese consumers to buy them and to use their web features. Even during last year's economic slump, the firm's operating profits jumped by nearly a quarter, to ¥1.0 trillion, as new handset purchases and higher data traffic offset a continuing slide in the amount each user spent on voice calls.

The question now is whether DoCoMo will hit a wall in Japan. With penetration rates already high, and 59% of the market, it must squeeze more from existing users, rather than chasing new ones. Its best hope of doing that, the 3G service that it launched in October, has been slow to take off. By the end of March it had sold only 80,000 3G handsets, well below its target of 150,000. Mr Tachikawa still believes that demand for 3G will take off soon. He forecasts nearly 1.4m users a year from now. And he invites them all to watch him discuss next year's cheery results on their mobile phones.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Merchandising and children's films

The spider's bite

May 9th 2002
From The Economist print edition

Now buy the T-shirt

Does it come in a bigger size?

IT IS the box-office take that grabs the headlines. The news that "Spider-Man", a film about the comic-strip superhero released by Sony's Columbia TriStar, broke all records when it took nearly $115m on its opening weekend in America, has raised the stakes for all the big studios and their slate of summer releases. This is the race that intrigues Hollywood insiders. "Spider-Man" trumped the first Harry Potter film; can "Star Wars: Episode II—Attack of the Clones", which opens later this month, trump "Spider-Man"? Box-office competition, however, disguises the fact that cinema-ticket sales are now only a marginal element of overall income.

As much as 80% of any film's revenue now comes not from ticket sales but from its release on video and DVD, pay-TV and so forth. Filmed entertainment for children is as much about selling toys, yoghurt pots, lunch-boxes and other paraphernalia as the film itself. Spider-Man, whose life began in a comic book, now graces cereal boxes, cool drinks and clothes as well as appearing in video games and as an action figure in toy-shops. Sales of Harry Potter toys have alone far exceeded the film's American box-office take. The spin-offs from a blockbuster film, says Dan Jansen, at the Boston Consulting Group in Los Angeles, can multiply American box-office revenues two or three times—with an even bigger impact on profits.

Treating a children's character as a brand is not new. Mickey Mouse first appeared as a branded item, on a pencil case, in 1929. Two things have changed recently, however. First, as the cost of making and promoting films has escalated, the industry has become increasingly dependent on hits. The more that Hollywood studios invest in films, the more they need to create "event movies" that grab magazine covers and get people talking. "Spider-Man" cost an estimated $150m to make, and another $50m to market. Once production costs reach $80m-100m, a film will not make money without extra sources of revenue. With toys, clothes and games the biggest-selling items, a children's film offers most opportunities for spin-off merchandising.

Moreover, since studios are placing such big bets, they increasingly want films that are famous before they are even made. "Spider-Man is the quintessential pre-sold property," says John Frelinghuysen, at Booz Allen, a consultancy. Like "Harry Potter", "Spider-Man" is an icon that will lure kids to the big screen almost regardless of the film's marketing push, let alone its merits. Characters from well-known children's TV shows and books are especially popular. Warner Brothers is releasing "Scooby-Doo", a film based on an animated TV series, in June; tie-ins include branded dog-food, and movie vouchers with the purchase of a flea medication.

The second big change is the rise of television as a marketing tool. Children's programming used to consist chiefly of a few hours on a Saturday morning broadcast network. Today, masses of cable channels are devoted to children—and dominated by the big media conglomerates. Last year they accounted for no less than 21% of all American viewing of cable channels, according to Booz Allen. Even in Britain, there are now 17 children's channels.

As with films, this proliferation is driven by merchandising. The global market for children's TV programmes is worth about $2 billion, according to Informa Media, a research group. But the market for licensed toys alone is worth some $27 billion. Throw in all the other branded items, from birthday cards to video games, and the market for children's licensed products is worth some $132 billion.

Since a TV series, unlike a movie, supplies a steady drip of exposure, it can be an even better means of promotion. As a simple rule, the more often a children's programme is shown, the greater the chance of its becoming a marketing hit. While older children are more seduced by this year's fad, younger ones are less fickle. If you can create a pre-school classic, there will be a new captive audience for it every three years or so. Children as young as three can be surprisingly efficient at pestering their parents for the latest item.

Income from spin-offs has transformed the business model for children's content providers. In the fourth quarter of 2001, Marvel Enterprises, which publishes the Spider-Man comic books, earned 35% of its revenues from licensing fees for the manufacture of action figures and toys, up from 6% the previous year. Three years ago, 98% of the revenue at HIT Entertainment, a British firm that owns “Bob the Builder”, “Barney” and other children's TV characters, derived from television. Last year, this share had shrunk to 19%, with the remainder coming from consumer products, home video and stage shows. “Bob the Builder” is now hammering his way into living-rooms in 140 countries, from Japan to America. “We are creative producers, but we are also now brand managers,” says Charlie Caminada, head of sales and marketing at HIT.

Plainly, there are limits to the willingness even of kids to succumb to all this. Plenty of money spent developing children's characters disappears into a drain. Having over-saturated the market with the previous Star Wars film, for instance, merchandising for “The Attack of the Clones” will be more limited. As David Hulbert, head of Walt Disney Television International, puts it, “we have to be very careful not to over-exploit.” Indeed, part of the Disney creed is to control the release of its classic characters—last year it was the turn of “Snow White and the Seven Dwarfs”, first made in 1937—in order to preserve their value. “Spider-Man” may be the latest box-office hit. But it has taken 40 years for the superhero to graduate from the comic book to the big screen.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Trouble in California's docks

On the waterfront

May 9th 2002 | SAN FRANCISCO
From The Economist print edition

A battle on the docks would be bad news for American business

WERE California an independent country, it would have the world's fifth-biggest economy, with a gross state product in 2000 of $1.3 trillion. Much of the output of that economy flows through two enormous port complexes. Last year 140m tonnes were loaded on and off ships at Long Beach-Los Angeles, the largest port in America, and a further 20m tonnes at Oakland, in San Francisco Bay. The flow is likely to increase: trade with Asia is expected to double over the next ten years.

That makes the ports essential for economic growth. The contract between the International Longshore and Warehouse Union and the Pacific Maritime Association, which represents the shipping lines, the merchants whose goods they carry, and the stevedore firms that employ the cargo handlers, will expire on June 30th. It covers 10,500 dock workers, in all the large ports along the western seaboard. On May 13th, negotiations on a new three-year contract will begin in San Francisco.

Both sides are making ominous noises. The shippers want new technologies and practices to speed the unloading of containers. The union's three priorities are maintaining its members' health benefits, guarding their pensions, and ensuring that changes in working practices do not reduce the amount of work available to its members.

For most of its existence, the ILWU has had good relations with the shippers. Since 1934 there has been only one dockers' strike on the west coast, in 1971. The two sides co-operated effectively over the biggest upheaval in cargo transport, the introduction of standard containers in the 1960s and 1970s.

More recently, however, the mood has shifted. The change appeared first in the 1996 contract negotiations. The union blames the arrival that year of a new president at the PMA, Joe Miniace, who came from the cost-cutting world of the managed health-care industry, for changing the tone from compromise to confrontation. The shippers retort that the union was disorganised and divided. When this caused negotiations to overrun, it resorted to what amounted to an undeclared strike, by slowing work down.

Slowdowns reduce the productivity of the docks and so hurt the shippers, but without cutting what dockers earn. The PMA claims that the union used the same go-slow tactic once the contract expired in 1999—and thereby won large increases in pensions and wages. If they detect signs of a slowdown this time, says Mr Miniace, the shippers will simply shut the union workers out of the docks.

The costs could still be huge. Stephen Cohen, a professor of planning at the University of California at Berkeley, estimates that a five-day stoppage would cost the American economy $4.7 billion. Longer stoppages would be even more expensive, as more and more parts of the economy were touched by a shortage of materials. Mr Cohen estimates that 20 days without the west-coast ports in operation would cost as much as $48.6 billion.

The union therefore doubts that the threat of being locked out is real; a stoppage might prompt George Bush to intervene, citing the national interest. It will be hard to replace union workers. Even if non-union workers did the unloading on the docks, the goods would still have to be taken away in lorries, most of them driven by members of the Teamsters, a powerful union that has promised to stand solid with the ILWU.

And the docks' customers will not easily find alternative routes: dockers in Vancouver have promised to support their American brothers. Sending goods round to the east coast, where a different longshore union has long since accepted many of the technologies that are at issue in the west, is also unpromising.

Besides adding time, going through the Panama Canal is impossible for the largest ships that ply the Pacific. A lot of businesses will therefore be praying that the union and the shippers can rediscover their old amiability.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Wireless e-mail

Sending a message

May 9th 2002
From The Economist print edition

Are wireless e-mail devices merely niche products, or a giant leap forward?

TO MANY of its 320,000 users, the BlackBerry—a sleek, pocket-sized device that gives you access to your e-mail while on the move—is known as “Crackberry”, so addictive is the ability to read and write messages while in a taxi, on a train, or during a meeting. Research in Motion (RIM), the Canadian firm behind the BlackBerry, has championed a new product category: neither a handheld computer with a wireless connection grafted on, nor an e-mail system shoe-horned into a mobile phone, but a device that combines an always-on wireless connection with a useable screen and keyboard, yet doesn't ruin the cut of your jacket. Is this the shape of things to come?

At the moment, the market is a niche one. RIM sells the BlackBerry handhelds, dozens at a time, to large companies as part of a package. A special box sits next to the corporate e-mail server, and pipes messages out to BlackBerry devices. It also handles replies sent from those devices, so that messages sent from a BlackBerry appear in the “out tray” on the sender's PC. RIM provides the devices, arranges airtime with the wireless operator, and handles network plumbing. So far, it has had most success in specific vertical markets, such as financial services, where the ability to respond quickly to events is worth paying for. For consumers, the BlackBerry's main benefit—integration with a corporate e-mail system—does not apply.

RIM touts astronomical figures for return-on-investment. But the real advantage, says Joe Manget of Boston Consulting, is that access to e-mail while travelling, and during evenings and weekends, means that less time is spent managing e-mail in the office; that time can then be used more productively. In effect, the BlackBerry tempts users to work during leisure time. For many users the trade-off is worthwhile. They would rather deal with a handful of messages every so often than face a mountain of e-mail when they arrive at their desks.

Having led the way, RIM no longer has the market to itself. Mobile operators are offering increasingly sophisticated telephone-based e-mail services, some of which integrate with corporate e-mail, if somewhat crudely. On May 7th a start-up called Good Technology, based in Sunnyvale, California, announced its own service, which manages to out-BlackBerry the BlackBerry in some respects. This rival service, called GoodLink, offers superior mail-management and synchronisation features, and runs both on BlackBerry devices and Good's own handheld, which is arguably an improvement on the BlackBerry. Good's chief executive, Danny Shader, says his firm has already coaxed some BlackBerry users to defect. RIM insists that Good is just a copycat company.

The market for all this clever technology is still tiny, however. A mere 32,000 BlackBerry devices were sold in the first three months of this year, compared with 3.25m handheld computers and around 100m mobile phones. Rather than looking to the consumer market for growth, both RIM and Good see the greatest opportunity in providing access to corporate databases, inventory-management systems and customer information to mobile workers. Mr Shader puts the potential size of the market at 15m users.

That means that the BlackBerry and its like will remain niche products for executives and mobile workers. Even so, its influence is being widely felt. The BlackBerry makes previous handheld computers look clunky and outdated. It shows that it is possible to fit a proper alphanumeric keyboard into a small device. Most important of all, it shows that a useful, simple and seamless service is powerfully addictive—a lesson that the troubled mobile-telecoms industry cannot afford to ignore.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Pharmaceuticals in Europe

Just a placebo

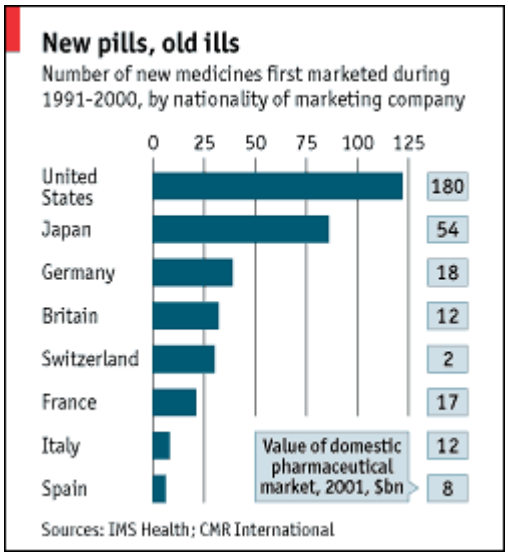
May 9th 2002
From The Economist print edition

Bleak prospects for reforming Europe's drug market

FOR years, drug makers have complained that government-controlled pricing of pharmaceuticals in European countries, along with meagre public investment in biomedical research, poor communication between academia and industry and bureaucratic delays, combine to make Europe a less attractive place to do business than America. Increasingly, though, politicians and patients are saying the same.

On May 7th the G10 Medicines Group—convened by the European Commission to tackle such issues—delivered its recommendations to Romano Prodi, the commission's president. The European Union's biggest problem is that the United States, the world's fastest-growing drug market, now dictates what and where pharmaceutical firms research and develop (see chart). America not only accounts for almost half of global pharmaceutical sales, twice the size of the European market; it also attracts the lion's share of corporate investment. According to the Boston Consulting Group, two-fifths of the 130 research sites of the world's leading drug firms are in the United States. Only this week, Novartis, a Swiss drug company, announced the opening of a new $250m international research facility in Cambridge, Massachusetts.

Europe's eclipse is due in part to national pricing policies that keep profits low. Most European governments cover at least some of the drugs bill for their citizens, and employ a variety of devices to keep costs in check, including price controls. As a result, many drugs are cheaper in parts of the European Union than they are in the United States, where market forces play a bigger role in pricing. Pfizer, an American drug maker, estimates that Europeans are, on average, paying two-fifths as much as American consumers for its products.



But that average conceals big differences among member states. Lipitor, Pfizer's cholesterol-lowering drug, is 30% cheaper in France than in Britain. Differences such as this lead to a lively parallel trade in medicines across the EU, which accounts for roughly 5% of Europe's pharmaceutical market. Companies dislike it, since it eats into their sales in more lucrative markets, and they fear that it will grow when even lower-price markets, such as Poland, join the EU.

To ease these worries, the G10 calls for a “derogation” or exemption of new member states from the EU's free trade in pharmaceuticals. Yet ultimately there is little scope for either the G10 group or the commission to interfere in member states' pricing policies, or in the existing parallel trade, because they fall under two inviolable principles of the EU: subsidiarity and the free movement of goods.

Brussels can merely try to encourage more harmony, and less clutter, in Europe's various regulatory systems. This would benefit both companies and consumers, who sometimes have to wait years longer than they would in America for new medicines to be launched on the market, because of wrangling with governments over details of reimbursement or price.

Streamlining the tortuous regulatory process that companies must undergo to bring their products to market would help Europe's makers of generic drugs, says Greg Perry, head of the European Generic Medicines Association. Although some EU states, such as Britain, have a robust generic industry, others such as France do not. Yet cheap generic drugs could, in theory at least, free up money to pay for

innovative medicines.

These are all good ideas—yet the G10 suggestions are modest. Irreconcilable differences between industry, government and patient representatives prevented any agreement on bigger issues. So the group stuck to safe stuff, such as calls for better co-ordination of EU research and greater patient information and participation. No quick cures there.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Low-cost airlines

Spread your wings

May 9th 2002 | FRANKFURT
From The Economist print edition

Signs of consolidation among Europe's low-cost airlines

AIR passengers pay the keenest prices if they grab deals the moment they come up. The same may go for airlines. On May 8th easyJet, a British low-cost airline, said it had taken an option to buy Deutsche BA, the loss-making German subsidiary of British Airways, before the end of March next year, extendable to early July, for up to *euro*46m ($42m). A few days earlier, news had leaked out that easyJet was also in takeover talks with Go, a low-cost rival set up by BA and spun off by it last year.

Up to now, Europe's low-cost airlines have mainly grown organically, rather than by acquisition. They started with a few flights between Britain and Ireland, and from Britain to continental Europe, and have opened up new routes eastwards where they can. That will change if easyJet goes through with its planned purchases.

Buying Go would bring easyJet a new London hub, Stansted to the north-east, to add to Luton to the north-west. Besides Munich and Prague, Go flies to several cities in Spain and to Italy, which has proved hard for easyJet to crack. Buying Go might not advance easyJet's ambitions to snatch more business passengers from established airlines. But it offers increased scale—and it is available. It is also a better fit than Ireland's Ryanair, Europe's biggest low-cost airline, which may anyway be too independent-minded to join forces with a rival.

The deal may please Airbus, which is in exclusive talks with Go to supply it with 75 aircraft. The European aircraft maker is fighting America's Boeing over a deal with easyJet. However, a bigger easyJet will displease established airlines. Germany's Lufthansa, in particular, has already taken Ryanair to court over the budget airline's habit of calling Hahn airport, about 100km (60 miles) from Lufthansa's main hub, “Frankfurt-Hahn”. Lufthansa has also been told by Germany's cartel office to raise fares on its Berlin-to-Frankfurt route. It had cut them sharply to compete with Germania, a domestic low-frills operation.

If easyJet does buy Deutsche BA, worse is in store for Lufthansa. Deutsche BA will be reshaped along low-cost lines. It serves seven routes within Germany, compared with Germania's two, including Munich to Berlin. Lufthansa has shown a lofty disdain for low-cost rivals, apparently believing that they serve different customers. That may prove an expensive mistake.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Selling energy

May 9th 2002
From The Economist print edition

How Dietrich Mateschitz turned Red Bull into a cult tipple

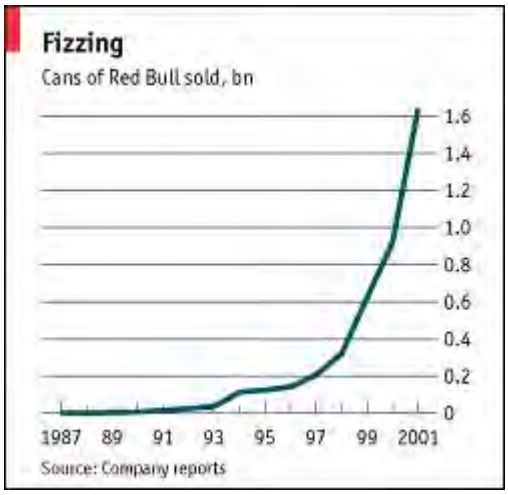
WHEN he launched Red Bull, a sweet and tangy energy drink in a slim silver can 15 years ago, Dietrich Mateschitz wrote a new chapter in marketing history. The Austrian entrepreneur not only created a new beverage category: the global market for energy drinks now doubles every year. His gut feel for branding made Red Bull a global cult drink, with *euro*1.4 billion ($1.3 billion) of sales last year.

“We don't bring the product to the people,” says Mr Mateschitz, a bronzed and energetic 57-year-old. “We bring people to the product. We make it available and those who love our style come to us.” What Red Bull showed, according to Nancy Koehn, a historian of brands at Harvard Business School, is that mass-market advertising was not the most effective way to reach and keep customers.

Instead Mr Mateschitz launched the brand by persuading students to drive around in Minis and Beetles with a Red Bull can strapped on top, or to throw Red Bull parties around weird and wonderful themes. The company's only advertisements are a series of whimsical television cartoons. Red Bull's marketing folk gloat that a recent British survey described their product as a “non-marketed brand”.

It takes lots of marketing to sustain that illusion. Mr Mateschitz spent three years developing the drink's image, its packaging and its low-key, grassroots marketing strategy before testing the product on the Austrian market in 1987. He now ploughs around 35% of turnover, some *euro*400m last year, into marketing, sponsoring events that fit the Red Bull image, from soapbox races to Formula One motor racing. They are, in fact, the sort of events Mr Mateschitz loves himself. With his passion for flying, snowboarding and motocross, he is an unusual figure, especially in staid Austria.

His formula seems to work: last year Red Bull sold 1.6 billion cans in 62 countries, an increase of 80% over 2000. Potential growth is still huge. In the United States, where Red Bull has built up its own distribution network from scratch, starting in California in 1997 and reaching Florida at the end of last year, sales still average only one can per person. If Americans eventually drink even half as much as the Irish, who top the charts with 11 cans apiece, the company would sell over a billion cans a year in America alone.



Red Bull, a mix of taurine, detoxicants, caffeine, sugar and vitamins, is “a beautiful product”, according to Mr Mateschitz. He discovered it in Bangkok when he was international marketing director for Blendax, a German toothpaste maker that is now part of Procter & Gamble. His Thai licensee, Chaleo Yoovidhya, had a tonic syrup called Krating Daeng in his portfolio. Mr Mateschitz was hooked. He always got the taxi-driver to stop on the way from the airport to buy a bottle. “One glass and the jet lag was gone,” he says.

The idea of marketing the stuff in Europe came to him when he read in a magazine that Taisho Pharmaceuticals, a producer of tonic drinks (and many other health-care products), was Japan's biggest taxpayer. In 1984, he set up a company with Mr Yoovidhya and his son Chalerm. Today, they own 49% of Red Bull; Mr Mateschitz owns another 49%; and the remaining stake is in a

trust. They played around with the drink's formula, translated the name into English and applied for authorisation to sell the sugary brew in Germany and Austria.

Mr Mateschitz is now based in Fuschl, a tiny lakeside village nestling in the Austrian Alps close to Salzburg and the German border. The company is building a new headquarters that will represent two interlocking volcanoes in a lake, erupting with a huge sculpture of running bulls.

Nurturing the Red Bull image is the key to remaining market leader in the energy-drinks business. Last year, Coca-Cola, PepsiCo and Anheuser-Busch, an American brewer, each launched an energy drink, attempting to get a slice of the market in which Red Bull currently has a 70-90% share. Mr Mateschitz is not worried. “The market isn't generic; it doesn't exist if we don't create it. It's a branded market,” he says.

Keeping cool

Mr Mateschitz now plans to spend two days a week coming up with wacky ideas to promote Red Bull. Already, the company sponsors an annual *Flugtag*, when contestants build their own flying-machines and leap off a parapet into water, true to the Red Bull slogan: “It gives you wings”. His latest project is to build a huge glass hangar at Salzburg airport to house his collection of ancient aircraft, including a DC-6 that once belonged to Marshal Tito, and to host airshows.

How long can Red Bull remain cool? Its carefully nurtured brand faces several challenges. It is now a mass-market product—and its first generation of users is growing older. “We need to get a new generation of 16-year-olds on board every year,” says Mr Mateschitz. Those who are no longer students are still “users”, even if they drink less and for different reasons. When they grow old, he says, “they'll find that it is the most efficient geriatric product on the market.” Then he shakes his head. A geriatric Red Bull can't work. He himself drinks a special sugar-free version of Red Bull, but weight-watching is too wimpy for the Red Bull image so it won't appear on the market.

That suggests another challenge. “It makes no sense to build a company on one product,” says Mr Mateschitz. So far, he has largely isolated the Red Bull brand. To launch three new-age health drinks, he set up a separate company. The only other drink to carry the bull logo is LunAqua, water bottled during a full moon and sold at Red Bull Full Moon parties.

That will change. “We have to go for diversification and acquisitions, and we are investing lots in R&D. We already have concepts and brand formulations for five years' time,” says Mr Mateschitz. But if Red Bull becomes a sort of Austrian Coca-Cola, that carefully cultivated ethos will vanish like bubbles in the brew.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Trade disputes

Dangerous activities

May 9th 2002 | BRUSSELS, GENEVA AND WASHINGTON, DC
From The Economist print edition

Europe and America always have plenty of trade rows. Steel is only the latest. But farm subsidies could yet do the most damage of all

Get article background

SIX months ago, the prospects for freer global trade seemed a lone bright spot in a dark world. Two months after the terrorist attacks on September 11th, 142 countries agreed to launch a new round of multilateral trade negotiations at Doha, in Qatar. A month later, China, the world's most populous country, joined the World Trade Organisation (WTO) and with it the multilateral trading system.

Even better was the fact that the United States and the European Union, the world's biggest traders, so often at loggerheads in the past, worked in close alliance at Doha. The two sides' trade supremos, America's Robert Zoellick and Europe's Pascal Lamy, were longstanding personal friends and fellow long-distance runners. Several simmering bilateral trade disputes, from bananas to Irish music, seemed to have been largely diffused. Transatlantic tensions, in short, appeared to have given way to a joint leadership that was at last pushing for freer trade.

How quickly things change. The world economy is looking unexpectedly brighter this year; but the transatlantic trade relationship has turned disturbingly dark. In March President George Bush, supposedly an advocate of free trade, slapped “safeguard” tariffs of up to 30% on foreign steel, in America's most protectionist single action for two decades. He has also accepted several other protectionist measures, in an attempt to persuade Congress to grant him trade negotiating authority.

Worst of all, Mr Bush is now poised to sign a farm bill laden with new subsidies for farmers. This matters hugely, because liberalisation of trade in agricultural products is central to the Doha agenda. And the Europeans, notoriously protective of their own Common Agricultural Policy, are likely to grab any excuse to avoid reforms that might hurt their politically powerful farmers.

Bending the rules on steel

The sad story begins with steel. The European Union, led by Mr Lamy, is heading a counter-offensive against American tariffs. Along with Japan, China and others, the EU has formally complained to the WTO. It is also demanding compensation from America for the cost of the steel tariffs. If the Bush administration does not offer such compensation by June 18th, the Europeans intend to slap tariffs on up to $336m-worth of American products. (The global trade rules, they say, allow this. America, furious, says they do not.) The Japanese, too, are threatening imminent tariffs, if only on a token $5m-worth of goods.

To make their annoyance even clearer, the Europeans have chosen to hit Mr Bush where it hurts most—in electorally sensitive districts. Tariffs may be imposed on a motley list of products from textiles (wounding North Carolina) to Tropicana orange juice (hurting Florida). Worse still, the Europeans have reacted with some protection of their own: days after Mr Bush's decision, they introduced their own safeguard tariffs to stop any steel diverted from America from flooding Western Europe's markets.

The Bush administration is incensed by both these moves. It accuses the Europeans of undermining the multilateral WTO-based system. The Americans are adamant that their steel tariffs are fully consistent with global trade rules. It is Europe, Bush officials insist, that is acting as “judge and jury” and in flagrant disregard of them. The administration has also made veiled threats that, if the EU actually introduces any tariffs, it will impose its own tariffs against Europe's own newly-minted safeguard protection.

Both sides take great pains to insist that their actions are consistent with global rules. Indeed they often argue, perversely, that they are imposing tariffs only in order to help free trade. Yet such double-think cannot hide the fact that they are dancing on the edge of a slippery slope leading to tit-for-tat protection.

The EU/US summit held in Washington last week made little progress towards solving any of these arguments. Mr Bush spoke lamely about finding the same spirit of co-operation in trade policy as in foreign policy. Trade officials on both sides toned down their rhetoric, but there was no breakthrough.

Several weeks remain before the EU deadline of June 18th. Both sides are keen to avoid outright confrontation if they can. Within Europe, several governments are queasy about Mr Lamy's tough stance. Sweden and Germany have publicly voiced doubts about the legality and advisability of immediate retaliatory tariffs. In private, the British are also worried. But Mr Lamy needs only a qualified majority of member states. This week all 15 governments supported the submission to the WTO of the list of proposed tariffs. Unless the Americans make substantial progress towards offering compensation of their own, the EU's tariffs are likely to go ahead.

Either way, the atmosphere of trust that had begun to be built up between Mr Lamy and Mr Zoellick, which played such a big role in Doha, has been strained, and at a time when the growth of world trade has faltered because of the slowdown in the world economy (see chart 1). Even if retaliation for steel tariffs is avoided, last year's transatlantic rapprochement is over.

The risk of escalation

How much does this matter? Optimists point out that, for the past four decades, the relationship between the world's two biggest traders has always been marred by disputes. They have not impinged all that much, it is claimed, on progress towards freer global trade. Like an old married couple, the Americans and Europeans bicker about relatively minor issues but make sure that their broader trade relationship does not break down.

It is true even today that Messrs Lamy and Zoellick work together professionally and effectively. Unlike their predecessors, Leon Brittan and Charlene Barshefsky, the two men have not compounded the disputes with personal animosity. There are also signs that Washington is looking for a face-saving compromise that offers the Europeans just enough, perhaps by excluding specific European steel products from the tariffs, to stop them from retaliating.

Yet there are three reasons why the steel row could prove more consequential, and more dangerous, than previous disputes. First, it is by no means the only one in town. Second, the steel dispute has exposed grave weaknesses in the young and fragile system for multilateral dispute settlement. And third,

there is plenty of worrying evidence, going far beyond steel, that America's commitment to free trade under the Bush administration shrivels when it runs into political pressure at home.

On June 17th, the day before the Europeans may impose retaliatory tariffs on steel, an arbitration panel at the WTO is due to announce how much retaliation the Europeans may levy against the United States on a separate issue: the foreign sales corporation-tax subsidy. Under American tax law, American firms get a tax break on their foreign sales, something the Europeans claim is an illegal export subsidy. The WTO, arbiter of global trade rules, agrees with Europe, and has ordered America to come into line. Until it does, the Europeans have the right to impose sanctions (ie, tariffs) commensurate with the impact of this illegal subsidy.

The level of permitted retaliation will be somewhere between $1 billion and $4 billion. That is far more than any previous WTO-authorised retaliation. (America's tariffs against Europe over bananas were worth a mere $191m.) Europe does not have to impose tariffs immediately—indeed, European businesses would be horrified at the prospect of any such thing—but it will be free to do so at any time and in any amount up to the limit permitted after June 17th. In short, Europe has an extra WTO-approved weapon to brandish.

To his credit, Mr Lamy has made clear that he has no intention of linking the tax subsidy and the steel dispute. He wants to see concrete evidence that America intends to revise its tax laws: at minimum, new tax legislation introduced into Congress this year. Mr Bush last week assured the Europeans that America was committed to falling into line with the WTO. Unfortunately, Congress, which must write and approve America's tax laws, may be less keen. Many lawmakers are already furious at the notion that the WTO has any role in domestic tax changes. Their willingness to comply in an atmosphere of transatlantic trade fights is likely to be minimal.

Indeed, there may be further escalation. America itself could challenge the legality of European tax systems in the WTO. Several congressmen have already muttered that, if you look closely enough, European countries may have tax provisions that are illegal under WTO rules.

America could also take the Europeans to task in the WTO over some separate issue where Europe is at fault: for instance, its attitude towards genetically modified organisms (GMOs). The European Union has imposed a moratorium on any new GMOs in Europe. This moratorium almost certainly breaks WTO rules. America has so far held off litigating, in part because such a strategy is politically risky: it would go down extremely badly in Europe and could whip up anti-GMO feeling among consumers in the United States. Nonetheless, the GMO weapon remains in the American arsenal.

Any escalation in this trade sniping could undermine the political legitimacy of the WTO

Any escalation in this trade sniping could undermine the political legitimacy of the WTO. Although it has the trappings of a trade court, the WTO's dispute-settlement mechanism cannot solve deep political differences—from the tax code to consumer health and safety—between countries. The steel dispute is already testing it to its limit. There is a sharp difference between the way trade agreements are first made, in sometimes mutually contradictory compromises between politicians, and the way they are interpreted afterwards by sharp-eyed lawyers. The safeguard agreement, for example, in the opinion of one trade lawyer, is like “a piece of Swiss cheese”. Both America and the EU claim to have kept to the letter of multilateral trade rules, while both sides have undermined their spirit. If the disputes accumulate, the WTO risks being clogged up as hundreds of inconsistencies and loopholes in numerous agreements are taken to litigation. At worst, this could undermine the WTO's entire dispute-settlement system. The WTO, after all, is still young, an institution in need of nurturing rather than smothering with work.

Compromising free trade

The agreement at Doha set the agenda for a new round of trade negotiations. These talks, now under way in Geneva, are due to be finished by January 1st 2005. Their goals are ambitious and aimed particularly at helping poor countries. Trade barriers in agriculture and textiles, two areas where rich countries have long been most protectionist, are to be brought down. Anti-dumping rules, another oft-misused form of protection, are to be revised. The Doha agenda is based on a gamble: that poor countries, who felt they were given a raw deal by the previous Uruguay round of trade negotiations that ended in 1994, will now feel that rich countries are prepared to open their markets. If poor countries are not convinced of this, the Doha round will fail.

That is the biggest potential consequence of the latest transatlantic trade spats. Across the globe, countries have seen Mr Bush put politics above principle. This has had little direct impact in Geneva so far, but that is only because the Doha negotiations are still mired in procedural difficulties rather than substance. Worries are already being voiced about America's commitment to multilateralism and to free trade in general.

It has not escaped other WTO members' notice, for example, that the Bush administration has exempted America's free-trade partners, notably Mexico and Canada, from the steel tariffs. To many, this decision (which the Europeans claim is against the WTO's rules) sends a dangerous message: sign up for bilateral deals with the world's biggest trader, and you will avoid its protectionism. That message is particularly pernicious. A web of bilateral trade deals offers far less global liberalisation than multilateralism, but it may reduce the political impetus to push for the tougher global trade agreements.

To many outsiders, America's overall commitment to free trade seems equally flimsy. On top of slapping tariffs on Canadian lumber, it has acquiesced in congressional efforts to backtrack on textile-trade liberalisation that was already agreed with Caribbean countries. And it has agreed to congressional demands to make future liberalisation harder in sensitive agricultural sectors, such as peanuts and citrus fruit.

Most such concessions have been made in the battle to win Trade Promotion Authority (TPA), the negotiating power which the Bush administration needs to conclude the Doha round. TPA was passed by the House by one vote in December. It is now bogged down in the Senate in a fight over health care for displaced workers. The Democratic leadership in the Senate has complained that the White House is not putting enough effort into getting TPA through. It is far from certain to pass.

A feast for farmers

Many Washington free-traders argue that all such protectionist measures have been a price worth paying for the greater good of winning TPA. In politics, they argue, you often have to take one step back to move two paces forward. Unfortunately, America seems now to be taking at least two steps back. The strongest evidence, besides steel, is the egregious farm bill that has just been agreed to by the House and the Senate.

According to the official numbers, the farm bill will increase government spending on agriculture by 80%—an additional $82 billion over ten years. Those estimates, according to most observers, are likely to be extremely conservative. The bill extends, or re-introduces, subsidies on a host of farm products from honey to chickpeas. For America's biggest crops, soyabeans, corn and wheat, it invents new payments that are related to prices and production and hence are highly trade-distorting—exactly the opposite of what the Doha round is meant to be about.

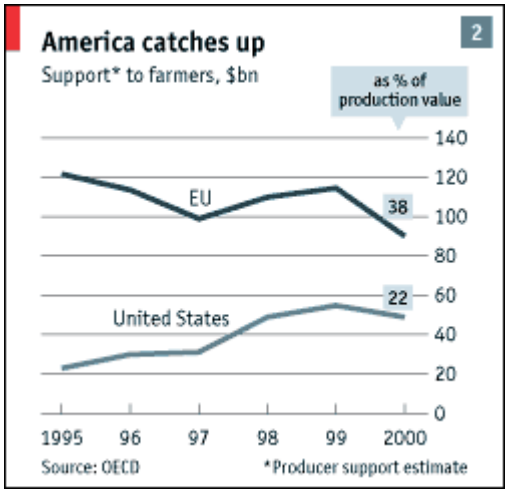
American officials in Geneva may talk about freer trade in agriculture, but Washington politicians are sending American farmers exactly the opposite message

In the Uruguay round, pushed by America, countries agreed to cut and set ceilings on their trade-distorting agricultural subsidies. America's ceiling is currently $19.1 billion. The European Union, which has long been a far greater villain than America in agricultural protection, has a ceiling of *euro*69 billion. In 1996, Congress passed the Freedom to Farm Act, which aimed to phase out subsidies for most agricultural products. America's trade-distorting support was already well below its permitted ceiling and had seemed likely to fall further.

Unfortunately, as prices fell in the late 1990s, farmers howled and received a series of emergency payments that pushed up total support (see chart 2). The new farm bill entrenches this support and undoes all the other progress made in 1996. Trade-distorting subsidies may rise so much, Europeans think, that America will break its Uruguay-round commitments. Congressional staffers deny this, claiming they have taken great care to stay within the WTO's limits. If these limits are breached all the same, the farm bill also contains a clause that allows the agriculture secretary, in theory, to cut subsidies.

In the meantime Europe's Common Agricultural Policy has been moving away from price- and production-based subsidies towards direct payments to farmers that have far less impact on trade. A decade ago, over 90% of Europe's farm subsidies were highly trade-distorting. But in 2000 the EU spent only around 20% of its

total support for farmers in this way. It is no small irony that Europe's top man on agriculture has, with some justification, accused America of “flunking” farm reform.



Good sense abandoned

To be fair, the Bush administration was not responsible for the farm bill. Ann Veneman, Mr Bush's agriculture secretary, suggested a more sensible approach to farm support, unlinking subsidies from production and focusing more on the environment. She was ignored by Congress. The political clout of farm states in an election year led to this gross subsidy-fest, with lawmakers falling over themselves to dole out cash to farmers.

Unfortunately, the same political considerations have made impossible any principled objections from Mr Bush. He has said he will sign the bill. The signal to the rest of the world is unambiguous. American officials in Geneva may be talking about freer trade in agriculture, but Washington politicians are sending American farmers exactly the opposite message.

Add together steel, the TPA compromises and agriculture, and America's commitment to freer trade looks laughable. Its trading partners, poor ones in particular, could be forgiven for doubting Washington's ability to stand up to domestic interests. This doubt threatens the Doha round.

Europeans will be reluctant to push politically tough liberalisation of their own agricultural policy if they see America doing the reverse. Poor countries will be even more suspicious of the multilateral system if they reckon America is unwilling to deliver its part of the bargain. Such backsliding may not cause an immediate world economic crisis. But in the long run it could put globalisation itself at risk.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

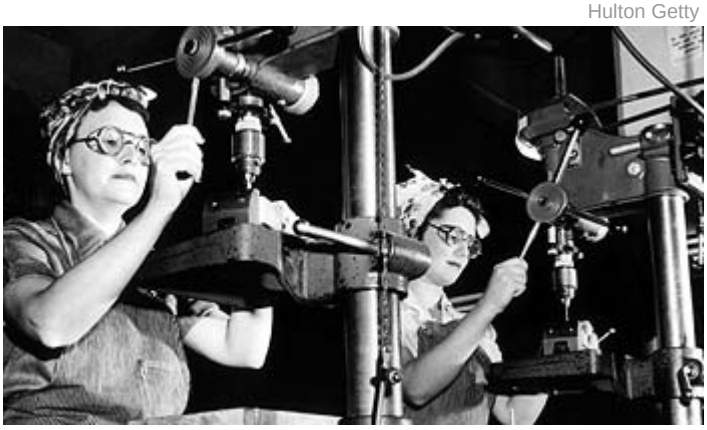
About sponsorship

Productivity growth

To these, the spoils

May 9th 2002
From The Economist print edition

Hulton Getty



Most of the benefits of America's productivity growth have not gone into companies' pockets

NOT only has America's productivity wonder survived its first recession; it has positively thrived. Output per man-hour in the non-farm business sector rose at an annual rate of 8.6% in the first quarter of this year, its fastest growth in 19 years. Quarterly figures are volatile, yet the year-on-year growth in productivity was also impressive, at 4.2%. This bodes well for America's future economic growth—but not necessarily for company profits, or for share prices.

Commentators cheered the latest evidence of rapid productivity gains, hoping that it might promise fatter profits ahead. That America's productivity continued to rise last year, in contrast to previous recessions, seems to confirm that an increase has taken place in trend productivity growth. Still, the latest numbers overstate the underlying trend.

First, the growth in output, and hence productivity, was inflated in the first quarter by a big swing in inventories. Productivity often surges in the first year of a recovery after recession, as firms produce more without needing to hire extra workers. Productivity rose by 4-5% in the first year following both the 1981-82 and the 1990-91 recessions. Firms have actually continued to cut jobs this year, lifting the unemployment rate in April to an eight-year high of 6%. Today's best guess is that trend productivity growth is around 2-2.5%. That is less than the 3-4% claimed at the height of the new-economy bubble; but still well above the 1.4% average over the two decades to 1995.

A second, more fundamental quibble is that, although profits will certainly rebound this year, as firms continue to trim their costs and revenues rise, in the longer term faster productivity growth does not automatically mean faster profits growth. A new study by Stephen King, chief economist at the HSBC bank, concludes that workers and consumers have received the lion's share of the productivity gains of therevolution in information technology (IT). Companies have received relatively little reward for their risk-taking.

In the late 1990s it was widely assumed that faster productivity growth would mean higher profits (so justifying higher share prices). Over the previous half-century a strong positive relationship had indeed held between productivity and profits. In the 1990s that relationship broke down. Despite a surge in productivity, national-accounts profits (as opposed to profits reported by companies, a less accurate measure) fell between 1997 and 2000, even before the economy dipped into recession

(see chart). At the end of 2000 the profits of America's non-financial firms were no higher in real terms than in 1994, implying a big fall in their share of GDP.

Mr King argues that workers (who are, naturally, also consumers) were virtually the sole beneficiaries of the new economy, in the shape of faster real wage growth. This was partly thanks to a fall in the prices of IT goods that they bought. More important, the same IT that spurred productivity also increased competition more widely across industries, from airlines and banking to insurance and cars, squeezing prices and profits. Information technologyreduces barriers to entry, and makes it easier for consumers to compare prices.

What is more, globalisation, itself spurred by information technology, has further trimmed the pricing power of firms. HSBC finds that, in most economies, the correlation between domestic inflation and domestic unit-labour costs has declined over the past 40 years; the correlation between domestic inflation and average OECD inflation has risen. In most countries in the 1990s domestic inflation was more closely correlated with OECD inflation than it was with domestic costs.

The dismal performance of profits should not surprise. As the IMF's *World Economic Outlook* last October pointed out, productivity gains from previous technological revolutions, from railways and textiles to electricity and the car, have gone largely to consumers. Each time, a decline in the prices of goods and services has given a big boost to real incomes. Consumers gained from cheaper travel or clothes, but profits disappointed. The difference this time is that new technology has increased competition and squeezed profit margins across the whole economy.

None of this lessens the overall benefit of faster productivity growth. But it does lead to some interesting conclusions:

• The profit expectations built into share prices are unrealistic. Even if productivity growth remains robust, long-term profits growth is likely to be weaker than expected, making shares overvalued.

• A lower return on equities means that consumers will need to save more. In the late 1990s consumers spent more and saved less, in the expectation that capital gains would finance their future pensions. If future returns are lower, consumers will need to tighten their belts.

• The dollar might well fall. The expectation of higher returns on capital in America has attracted foreign money and made it easy to finance America's big current-account deficit in recent years. If actual returns are disappointing, foreign investors will dump the dollar.

• A lower than expected return on capital could also lead to a more prolonged slump in IT investment. That firms have not benefited from their massive investments in the late 1990s raises questions about their capital spending over the coming years—and, in turn, over the sustainability of faster productivity growth.

Perhaps two-fifths of the acceleration in productivity growth between the first and second halves of the 1990s is explained by companies' increased spending on IT equipment rather than by higher total factor productivity (the efficiency with which both capital and labour are used). Spending on IT has since fallen sharply from a peak in 2000. If it fails to return to its earlier, clipping pace—because firms can see no pay-off—this could dampen future productivity growth.

The good news is that companies still have plenty of scope to boost productivity by reorganising their businesses to use information technology more efficiently, which could yet boost growth in total factor productivity. That theory might soon be put to the test.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Analysts on Wall Street

Sell?

May 9th 2002 | NEW YORK
From The Economist print edition

Dishonest research, gullible investors

SOME Americans believe that nothing bad happens to them that is not somebody else's fault. Who do they blame for the plunging value of their shares? Wall Street's boosterish analysts, of course. A likely settlement by Merrill Lynch of a lawsuit brought by New York state's attorney-general, Eliot Spitzer, over tainted advice given by analysts, may be just the start of a long campaign against all of Wall Street's big brokerages. It will involve regulators, legislators—and more lawsuits.

Lawmakers in Washington smell blood, if not the chance to extract contributions from the lobbying efforts of an embattled industry. The talk is of forcibly splitting research from investment-banking activities—much as, after the Wall Street crash of 1929, investment and commercial banking were banned within the same firm by the Glass-Steagall act. Perhaps a split would put an end to overly bullish research reports designed to win investment-banking business from companies, such as advising on mergers and acquisitions or underwriting initial public offerings (IPOs) of shares.

Although some firms, such as Prudential Securities, have made this split of their own accord, this often owes more to the failings of their investment-banking arms than to the potential profits from independent research. Indeed, only Sanford Bernstein has thrived as a big, independent research firm. Mostly, a mass of tiny boutiques exist, many manned by former Wall Street analysts excommunicated for the sin of bearishness.

If Wall Street's investment banks were forced to spin off their research arms, the effect would be unpredictable. That is partly because of the strange way that research is paid for. Institutional investors that trade with the brokerage arms of Wall Street firms do not buy the research directly. Rather, they direct share trades and commissions to the firm. However, since almost all institutional investors have long been sceptical of research analysts' bias, they have built up proprietary research of their own. In part, institutions buy research, in indirect fashion, in order to get an indirect benefit: the preferential allocation of shares in IPOs underwritten by the bank.

The outlook for independent research, therefore, if a new Glass-Steagall banned investment banks from providing research, would depend on many things. Are indirect payments by commissions to be banned too? Are brokerage and research to be split? Is the IPO allocation process to be changed?

Wall Street is alarmed at politicians carving up their industry again, just three years after the original Glass-Steagall was scrapped. Yet there is no clear strategy for stopping them. True, Wall Street is trying to convince Washington that it can put its own house in order. On May 8th the Securities and Exchange Commission approved new rules about the independence of analysts that were proposed by the National Association of Securities Dealers. Yet, other than disclosing more clearly when potential conflicts of interest exist, it is not clear that they improve matters. Most Wall Street houses now stop analysts from buying shares in the firms they follow. Some firms, such as Morgan Stanley, have abandoned straight share recommendations (buy, hold or sell) entirely.

Even a willingness to reach settlements with the likes of Mr Spitzer, with no fault admitted, sends mixed signals. Is it an appropriate act of contrition, a lack of spine or justified terror? This week, Win Smith, a former executive at Merrill Lynch, publicly attacked his old firm's handling of the affair. It should, he said, have told Mr Spitzer that “we have nothing to hide”. Other Wall Street firms have done no better at making their case. Perhaps Rudy Giuliani, New York's former mayor, who is now advising Merrill Lynch, will turn things around. He at least knows what it means to show leadership in a crisis. But it may be beyond even Mr Giuliani to persuade Americans to acknowledge that they lost money not because of analysts, but because greed blinded them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

American International Group

Fighting the tape

May 9th 2002 | NEW YORK
From The Economist print edition

Bothered about a weak share price

NOBODY will say that AIG's chief executive, Maurice ("Hank") Greenberg, is deaf to the stockmarket's calls. With the shares of the world's largest insurance company down by 35% since their high in late 2000, and by 15% this year alone, AIG has been doing what companies are supposed to do: calming shareholders with a bit more information, reporting with frankness the odd earnings disappointment, and making gestures to soothe deeper-rooted concerns.

Last month Mr Greenberg held an open conference call to discuss the company's quarterly results—a first. This month a handful of executives were promoted to senior positions, in a way that points to some sort of plan for Mr Greenberg's eventual succession; he is 77. A seven-person office of the chairman has been set up, and two AIG executives, Martin Sullivan and Edmund Tse, have been appointed as co-chief operating officers. No such position had existed since September 2000, when Mr Greenberg's son, Evan, left suddenly.

Now Mr Sullivan, the younger of the two executives, is generally presumed to be Mr Greenberg's heir. A seeming lack of planning for the succession had been weighing heavily on investors. If Mr Greenberg was known to have so much as a bout of flu, the company's shares had tended to fall.

It is possible that these moves will help restore AIG's share price, whose weakness has bothered the company at a time when the shares of other insurers have risen. Last month, in a challenge to anybody with the temerity to bet against it, AIG said it had asked the Securities and Exchange Commission (SEC) and the New York Stock Exchange to investigate short-selling in its shares—a legitimate practice, usually.

Doubts may persist, however. The succession plan does not appear straightforward. All the executives have only ever lived in Mr Greenberg's shadow. Finally, AIG's operations and its accounting for them still appear fabulously byzantine, at a time when complexity is out of vogue with investors. For instance, David Schiff, of *Schiff's Insurance Observer*, a newsletter, notes that the company has, in essence, more debt than generally understood, thanks to $22 billion in policy holders' contracts (issued to special-purpose vehicles) that are incorporated into AIG's balance sheet as a liability, but not as a debt.

Mr Schiff, an admirer of Mr Greenberg, draws attention to an intriguing section of AIG's proxy, sent to all shareholders and to the SEC, about the company's audit committee. The role of the committee at any company is to oversee management and outside auditors. By monitoring a company's financial disclosures, the audit committee underpins investors' faith in what the company is telling them. The audit committee at AIG has a particularly distinguished cast: Barber Conable, once head of the World Bank, Carla Hills, trade representative under Bill Clinton, Bernard Aidinoff, a tax lawyer, and Frank Zarb, former head of the Nasdaq stockmarket. Mr Schiff says that their opinion on the fairness of AIG's financial statements is so "ambiguous, elusive, equivocal, hedged, and oblique" as to be "virtually meaningless". He has a point.

The members of the audit committee, the proxy says, are "not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing." They rely "without independent verification on the information provided to them and on the representations made by management and the independent accountants." And their oversight "does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures."

And so on. If the audit committee is not prepared to lay itself on the line, little wonder that investors in AIG are not either.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Peter Bauer

May 9th 2002
From The Economist print edition

Peter Bauer, the subject of our Economics focus last week, died on May 3rd, just as he was getting the acclaim his work had long deserved. This week he was due to collect the Cato Institute's Milton Friedman prize “for the advancement of liberty”. Lord Bauer was a fierce critic of foreign aid, which he argued enmeshed poor countries in their poverty. The best way to foster economic development was to let market forces work properly—an insight that not so long ago was controversial. To the end, Lord Bauer continued to protest. On May 1st he told *The Economist* that “foreign aid continues to be detrimental to trading systems, continues to encourage the misallocation of local capital and skill, continues to foster government policies that impoverish rather than benefit people.”

UPP

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Spanish savings banks

Opening the box

May 9th 2002
From The Economist print edition

Inching towards privatisation?

SPAIN'S savings banks were founded in the 19th century to serve the needs of the poor. They have no shareholders to demand high returns. Rather, local politicians from the country's 17 autonomous regions dominate their ruling general assemblies. Elsewhere in Europe, the concept of mutually-owned institutions is in sclerotic decline. The *cajas de ahorros*, on the other hand, are thriving. They have half of Spain's deposits and two-fifths of loans, with much business grabbed from listed rivals. And now a new law proposed by Spain's Popular Party government should give them access to fresh capital, to help fuel more growth.

Under the new law, expected to pass this autumn, savings banks will for the first time be encouraged to raise capital from private investors. They will use a financial instrument called a participating stake, which does not grant investors any voting rights. The move stops some way short of privatisation.

Some at Spain's listed banks will despair. In recent years the savings banks have bought into plenty of listed institutions, foreign and local. They have an unfair advantage, the listed banks complain, because while they may buy banks, *cajas* are themselves protected from takeover. With no shareholders, they may spend with little restraint: what on earth, asks a top banker from one of Spain's listed banks, is Caixa de Ahorros y Pensiones de Barcelona doing with a 4% stake in Deutsche Bank? It is not just their investments that are decried. Poaching business from listed banks, the *cajas* are among the few banks in the world to be adding branches.

And they can make good money, with an average return on equity of about 14-15%, says Gonzalo Gortazar, a banker at Morgan Stanley Dean Witter in Madrid. After all, their source of funds is cheap retail deposits rather than the capital markets. Because *cajas* are obliged to give a slice of their profits to good causes—they give one-quarter of their earnings, on average, to health, educational and other initiatives—they are trusted by their customers, who tend to be unsophisticated and less concerned by the lower rates of interest on offer than elsewhere.

To grow further, however, the savings banks need more capital. But as well as giving them a way to raise new money, the government wants to limit the influence of politics on their management. At present, people from regional and municipal government influence the *cajas*, along with representatives from workforces and depositors. At times, political agendas have got in the way of sensible strategy. Proposed mergers between small *cajas*, for instance—there are 50 in total—have been stymied by regional rivalries, and banks have made soft loans to local industries.

The government wants to exclude people who hold public office from executive positions and to place an age limit on executives. If it had the nerve, it would try to limit political representation at the *cajas* to under 50% of their assemblies. That would pacify the European Commission, which is critical of the fact that some savings banks are, in effect, controlled by the state. Any attempt to reduce the powers of patronage conferred by savings banks' social donations will be fought hard in the regions.

What alarms the regions most of all is the idea, spread by some opposition politicians and even by some in the Popular Party, that the proposed changes to the capital structure and governance of savings banks represent a first step toward full-scale privatisation. For now, the aim of the new legislation is merely to strengthen the *cajas* with a touch of market discipline and with management more inclined to make profits. For now.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bankruptcy in Japan

Prize possessions

May 9th 2002 | TOKYO
From The Economist print edition

Bankruptcies can be a beginning, not always an end

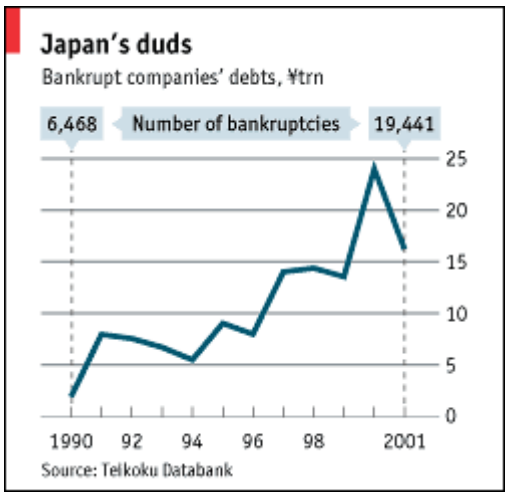
Get article background

TWO bankrupt retailers, an ocean apart, show how important it is to get quick access to fresh funds after filing for bankruptcy. In January, Kmart, a discount chain, became the largest retailer ever to file for Chapter 11 bankruptcy in America. Four months earlier, Mycal, a supermarket chain, had become Japan's biggest retail bankruptcy. Both had racked up a big pile of debt—around $11 billion at Kmart and $13 billion at Mycal. It was suppliers demanding cash-on-delivery that tipped them over the edge.

Yet the similarities end there. As it filed for bankruptcy, Kmart secured $2 billion of debtor-in-possession (DIP) loans, offered to companies under court protection and used mainly as working capital. Suppliers were back within days. By contrast, Mycal was able to raise only ¥50 billion ($390m) of similar loans in the first two months after its collapse. More than half of its suppliers suspended delivery. Sales at Mycal stores plunged by one-third after it filed for bankruptcy, compared with a 10.8% drop at Kmart. It was only when Aeon, Japan's second-largest supermarket chain, took Mycal under its wing that its suppliers came back.

Mycal's predicament is one reason why so many stricken firms in Japan hang on, almost lifeless, for so long. In America, lots of DIP financing means that companies are keener to restructure their businesses, including filing for bankruptcy. In Japan, companies would rather run themselves into the ground than admit that they need court protection. By the time Japanese companies have no option but to go into bankruptcy, their odds of recovery are far slimmer, says Willem Appel of ING, a Dutch bank.

This has not escaped the government's notice. It is trying to promote DIP lending as corporate bankruptcies have climbed (see chart). Two years ago, a new law offered DIP lenders more protection should a stricken borrower be forced into liquidation. High fees and interest rates have also helped to tempt some lenders into the debtor-in-possession market. They can earn 1-2% in fees, and up to 300 basis points above Libor, the rate at which banks lend to each other, in interest.



All this has helped to persuade some institutions, both foreign and domestic, to start providing DIP loans in Japan. For example, GMAC Commercial Mortgage, an affiliate of General Motors, lent to Mycal. Locals, such as Mizuho Corporate Bank and Aozora Bank, are also making loans. Still, the bulk of the financing has been offered by the Development Bank of Japan (DBJ), a government bank, partly driven by a sense of national duty. Hiroto Matsuda, a director at the DBJ, says that Japan's DIP market, currently about ¥100 billion a year, could double over the next year or so.

Others are less optimistic. Private groups are reluctant to offer large amounts of loans. Protection for DIP lenders is still not strong enough, says Yoshiki Ishizuka, also from ING. In America DIP lenders get "super-priority" over all other claims, and may even undermine collateral held by secured lenders if certain legal criteria are met. Japan offers no such favours. Rather, tax or labour claims, low-ranking or unsecured claims in many other countries, take precedence over DIP loans.

Extending fresh funds to bankrupt borrowers poses another problem for Japan's big banks, which are

already burdened with bad debts. Although the Financial Services Agency, the bank regulator, recently emphasised that DIP loans will be treated as healthier loans, banks still have to disclose them as loans to bankrupt companies, a process that inflates banks' bad-loan numbers.

Still, the biggest reason why DIP lending has yet to take off is that most companies have few attractive assets left to use as collateral for fresh loans. Ten years ago, it would have been a lot easier to make such loans, when property prices and stockmarkets were higher, says Akihiro Saito of Mizuho Corporate Bank. “Banks and borrowers waited far too long.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Stock exchanges in Europe

Swallow me, swallow

May 9th 2002
From The Economist print edition

All to play for among Europe's exchanges

Get article background

THE endgame is perhaps about to begin for Europe's stock exchanges, in their bid to secure an unassailable share of equity and derivatives trading in the European time-zone. For now, the London Stock Exchange (LSE) is the prize to fight for. America's Nasdaq, heavy in the shares of technology companies, has been talking to the LSE, which is Europe's biggest equities exchange. Deutsche Börse, based in Frankfurt, and Euronext, which runs the Amsterdam, Brussels, Paris and Lisbon stock exchanges, both need London if they are to beat the other to become the dominant pan-European exchange. Both are building their own clearing and settlement businesses which, they hope, will provide a captive source of profits.

Exchanges out on a limb, as the LSE is today, cannot hope to increase profits through higher trading volumes or greater efficiencies. Everywhere they are losing business to big investment banks, which often match buy and sell orders in-house rather than deal through an exchange. As much as 30% of share-trading in Europe is now carried out in-house. Yet the LSE needs profits, now that it is no longer a mutual club of members but a listed company with shareholders to please. A merger with Nasdaq would not add much in the way of profits; neither would a captive clearing and settlement operation. But it would save the exchange from its European rivals. That is why any proposal for Nasdaq and the LSE to merge would probably trigger hostile bids from both Deutsche Börse and Euronext.

For now, it is not clear just what Nasdaq and the LSE are talking about. Perhaps about a full takeover of the LSE, valued at roughly $2 billion, by Nasdaq, a mutual that plans to float later this year, raising up to $3.5 billion. Or the London exchange may be thinking of taking a pre-float stake in Nasdaq.

Such an alliance might fit well with Nasdaq's attempts to build foreign bridgeheads. Nasdaq Europe, which it launched in March 2001 out of the ashes of Easdaq, a European lookalike, has been a disappointment. That is despite its 10% cross-shareholding with the Berlin Stock Exchange, and an agreement to build a common trading system.

A merger between Nasdaq and the LSE would create the second-biggest stock exchange in the world, after the New York Stock Exchange. But it still makes little sense, says Huw van Steenis at J.P. Morgan Chase. The biggest savings from a merger come from sharing technology, yet neither exchange's trading system—Nasdaq's SuperMontage, an open-order quote system, is due to be launched in a few months—is appropriate for the other, and adapting either would be punitively expensive.

A merger between Nasdaq and the LSE would create the second-biggest stock exchange in the world. But it still makes little sense

A merger might offer greater round-the-clock liquidity, but who wants it? Nasdaq Europe's offer to trade American shares in European hours is rarely if ever taken up. For institutions, the circular logic applies: with little volume, there is little liquidity, and so little point in placing orders. Even if there were liquidity, brokers in Europe would be wary of large institutional orders, for fear of being accused of market abuse—using knowledge not available to investors who are asleep in America. Nasdaq Japan, part of a drive towards a 24-hour trading platform, also attracts little interest from investors.

The first truly global exchange is more likely to trade derivatives than equities. Derivative contracts for bonds, commodities and even equities are less tied than shares are to their country of issue. For example, trading in options on the shares of Nokia, Finland's telecoms giant, is bigger in Frankfurt than

in Helsinki.

One or two derivatives exchanges with worldwide reach would be welcomed by big investment banks, which already pass some of their derivatives books around the world. Possible partners in such an exchange might include the Chicago Board Options Exchange, owned by the Chicago Board of Trade; Eurex, based in Frankfurt, half-owned by Deutsche Börse; London's futures exchange, Liffe, now owned by Euronext; or the Chicago Mercantile Exchange, which has long been eager to establish itself in Europe.

Screen-trading of European derivatives has crossed the Atlantic. America's derivatives regulator has allowed Liffe and Eurex to install screens in America. Europe's equities exchanges will find it harder to persuade regulators to let them in too. Moreover, American stock exchanges cannot list companies that do not follow America's generally accepted accounting principles (GAAP). So even if a European and an American exchange were to merge, most listings brought in by the European side could not be traded in America.

In Europe, the LSE has few likely partners to help it fend off a hostile bid by Euronext or Deutsche Börse. Milan's bourse, which is about to bring trading and settlement together, has links with Deutsche Börse. The Swiss Stock Exchange has moved its trading of blue-chip shares to virt-X, an electronic exchange launched in London last year that the LSE might one day buy. The Madrid exchange is busy overseeing the merger of Spain's regional bourses. A dark horse could be OM Gruppen, a Swedish group that made a hostile bid for the LSE in August 2000. Since then OM has shed businesses, as its share price sagged. It has derivatives technology and experienced management, both of which the LSE seems to covet. Talks have been friendlier of late.

The dream solution for Werner Seifert, chief executive of Deutsche Börse, would be to take over a merged Nasdaq and LSE. That would give him a cut of two of the world's great equity markets, with an invitation to clear and settle trades at Deutsche Börse's one-stop shop. For Jean-François Théodore, Mr Seifert's counterpart at Euronext, the prize would be much the same, but the choice of where to clear and settle would be more open. Neither man, after recent acquisitions, has much in the way of spare cash. They would need to go to their shareholders cap in hand. Who can tell the better story?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Underpinning returns

May 9th 2002
From The Economist print edition

Guarantees on investment returns are moving to centre-stage in the pensions debate

AROUND the developed world, governments are striving to cut back pension benefits financed from taxes on working people. Individuals are being encouraged to do more for themselves by investing in their own retirement accounts. The trouble is that this exposes part or all of their retirement income to so-called investment risk—a risk highlighted by recent falls in share prices.

In principle, guarantees can mitigate the riskiness of individual retirement saving. But what form should they take? How expensive are they to provide? And how should they be fitted into redesigned pension systems?

Several kinds of guarantee have already been introduced. In Germany, new individual retirement accounts are given tax breaks and grants. The financial institutions providing the new accounts must offer a guarantee of principal: that is, savers must get back at least the cash value of their contributions. Another type of guarantee is a minimum pension, common in countries such as Chile that have converted their pension system from one financed through taxes to one mainly made up of privately funded accounts. If an individual account delivers a pension income less than a quarter of average earnings, the Chilean government will use tax revenues to top it up to that floor.

In America, increasing interest in pension guarantees follows the report of a commission set up by President George Bush to work out how voluntary individual accounts might be incorporated into the Social Security (pension) system. The commission did not include guarantees in its proposals, but it urged the need for clarity about what they might entail. This prompted a recent conference on pension guarantees at the University of Pennsylvania's Wharton School.

A conference paper written by Marie-Eve Lachance and Olivia Mitchell, a member of the president's commission, shows why any guarantee of investment returns needs careful design. In effect, a guarantor of a funded pension is offering a put option (the right to sell something at a pre-determined price) to individuals. If disappointing returns mean that the retirement account delivers less than the guaranteed level, the put option will be “in the money”, the retiring generation of pensioners will cash in and the guarantor will pay up.

The cost of a guarantee depends on what form it takes, how long it runs and what investments are allowed in the account. Guarantees of principal are cheap. The authors calculate that the cost of guaranteeing all the money paid into an account invested half in equities and half in bonds would be only 0.2% of all contributions after ten years, and would fall to zero soon after. Even if the guarantee also compensated for inflation, the cost would still be quite low: 2% of contributions ten years out, declining to 0.5% of lifetime contributions after 40 years. The reason why the guarantee gets cheaper over time is that the value of the principal, whether nominal or real, shrinks as a proportion of the total expected value of the account—which includes cumulative interest and capital gains.

By contrast, the cost of guaranteeing a minimum income floor, based on government-bond returns, is considerable for a fund that is half invested in equities; and the cost rises with time. Over ten years, it would cost 8% of contributions, climbing to 16% over 40 years. This runs counter to the familiar view that equities become safer the longer you hold them. Average annual returns on equities certainly grow less volatile, but the opposite is true for total returns as holding periods lengthen. This is because investors are exposed for longer to the risk of a really serious setback in the stockmarket.

In short, pension guarantees of principal are cheap, but largely because they offer little or no benefit

over long periods. Minimum-income guarantees offer a substantial benefit, but this makes them correspondingly expensive.

Getting round the fickle state

The strategy used by Chile to avoid this potential liability is to set contribution rates at levels that are a good deal higher than would normally be needed to deliver the minimum pension. Yet this "overfunding" strategy is flawed, argues Kent Smetters*, also of the Wharton School, since a shortfall is still likely to occur for generations unlucky enough to retire at a time when financial markets have delivered very poor long-run returns. One way to overcome this is for governments to tax above-average returns in the fat years so as to finance a pension reserve that could meet the cost of the guarantee in the lean ones.

This strategy may make sense for countries that now rely mainly on mandatory funded accounts to provide pensions. But when governments bolt voluntary individual accounts on to a slimmed-down tax-funded pension system, a more appropriate policy is simply to insist on a cautious investment strategy in the new accounts. If individuals want guarantees and are prepared to pay for them, all well and good. But there is little point in the government offering them, particularly when, in the long run, nothing is guaranteed about the tax-financed benefits that it will still be providing.

The use of guarantees does not undermine the case for more private-pension provision, so long as they are properly designed and are assigned a proper cost. Individual accounts create a contractual claim on future resources very different from the fickle promise of traditional state pension benefits. A virtue of pension reform is that it replaces the opaque world of pay-as-you-go pension financing with one in which commitments are clear and explicit. That transparency should now encompass guarantees too.

---

* "Controlling the cost of minimum benefit guarantees in public pension conversions", by Kent Smetters. *Journal of Pension Economics & Finance*, March 2002.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Urbanisation

The brown revolution

May 9th 2002 | NAIROBI
From The Economist print edition

Reuters

The world is in the middle of a surge of urbanisation, with more than a dozen new "megacities" having arrived in the past two decades

THE main street of Huruma is a hive of activity. Market traders are selling everything from live chickens to trainers to herbal medicine from the front of rickety shacks. The street is unpaved, muddy and lined with compacted rubbish. Huruma is an unplanned settlement built on council land in the outskirts of Nairobi. Behind this market street are five slums, housing about 6,500 people at densities of up to 2,300 per hectare. There is only one toilet block and but a few water outlets. In the narrow gaps between the shacks, where people walk and children play, open earth canals provide sewerage.

Of Nairobi's population of 2.5m, about 60% live in conditions like this—or worse. Africa's largest slum outside the suburbs of Johannesburg is in Nairobi. It is called Kibera, and is home to some three-quarters of a million people.

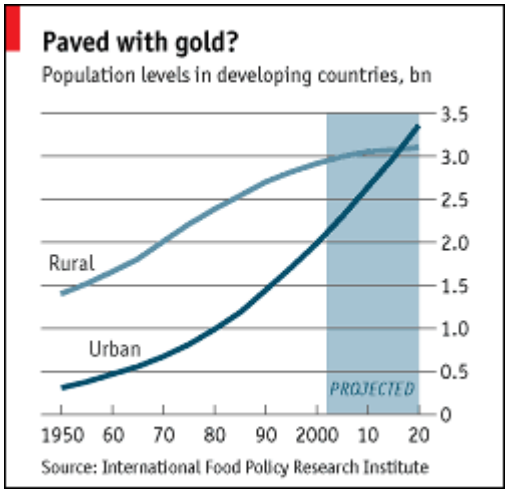
Nairobi's population is growing by 5% a year, and many people believe that the city's slums are close to crisis. Municipal waste-collection rates dropped from 90% in 1978 to 33% in 1998. When it rains, storm water washes the accumulated waste into the water sources used by the poor. Yet Nairobi is not exceptional by international standards. Conditions such as these are the main reason why, every day, there are about 6,000 deaths around the world from water-borne diseases.

Despite all this, people are moving to cities in droves. In 1950, two-thirds of the world's population lived in the countryside. New York was then the only settlement with more than 10m people. Today there are 20 such megacities, and more are on the way.

Most of these megacities are in developing countries that are struggling to cope with both the speed and the scale of human migration. Estimates of the future spread of urbanisation are based on the observation that in Europe, and in North and South America, the urban share of the total population has stabilised at 75-85%. If the rest of the world follows this path it is expected that in the next decade an extra 100m people will join the cities of Africa, and 340m the cities of Asia: the equivalent of a new Bangkok every two months. By 2030 nearly two-thirds of the world's population will be urban.

In the long run, that is good news. If countries now industrialising follow the pattern of those that have already done so, their city-dwellers will be both more prosperous and healthier. Man is a

gregarious species, and the words “urbane” and “civilised” both derive from the advantages of living in large settlements.



History also shows, though, that the transition can be uncomfortable. The slums of Manchester were, in their time, just as awful as those of Nairobi today. But people moved there for exactly the same reason: however nasty conditions seemed, the opportunities of urban life outstripped those of the countryside. The question is how best to handle the change.

It is a measure of the extent to which urban (or “brown”) issues, as opposed to rural, or “green” ones, are moving up the international agenda, that UN-HABITAT, the United Nations agency responsible for such matters, was recently promoted from its lowly “centre” status to the more exalted “programme” level (the first time this has happened in UN history). A few days ago it celebrated its elevation by holding the first-ever World Urban Forum, an informal think-tank of experts culled from governments, the private sector and voluntary organisations, in Nairobi.

Cities make the world go round

If there is one thing that everybody agrees on, it is that urbanisation is unstoppable. Migrants attempting to escape poverty, and refugees escaping conflict, are piling into cities in what the executive director of UN-HABITAT, Anna Tibaijuka, describes as “premature urbanisation”.

Dr Tibaijuka believes it might be possible to slow the pace of migration from the countryside with policies that enhance security and rural livelihoods. There is room for debate, though, over whether better rural development in any form can seriously slow the pace of urbanisation—or even whether such a slowdown would be a good thing.

Reuters

Looking up

Michael Mutter, an urban planning adviser at the British government's Department for International Development (DFID), says that the relevant indicators suggest that in many countries the effective “carrying capacity” of rural areas has been reached. As happened in Europe in the 18th century, population growth and technological improvements to agriculture are creating a surplus population. That surplus has to go somewhere to earn its living.

Indeed, some people go so far as to argue that governments, international donors and aid agencies spend too much on rural development and neglect the cities. Most countries have a rural development policy, but only a few have urban ones. DFID, for example, spends only 5% of its budget directly on urban development. Moreover, these critics point out that, although rural areas often have worse sanitation, illiteracy and homelessness than cities, such figures are deceptive. Being illiterate, homeless or without access to a flush toilet are far more serious problems in a crowded city than in the countryside.

People power

Of the many lessons being learnt from past urban-development failures, one of the most important is that improvements must involve local people in a meaningful way. Even when it comes to the poorest slum-dwellers, some governments and city authorities are realising that people are their own greatest assets. Slumdwellers International is a collection of “grassroots” federations of people living in slums. Its idea is simple. Slum-dwellers in a particular place get together and form a federation to strengthen local savings and credit schemes, and to lobby for greater co-operation with the authorities. Such federations are having a big impact on slum-upgrading schemes around the world, not least in Huruma.

By surveying local needs and acting as voices for slum-dwellers, these federations have been able to show the authorities that slum-dwellers are not simply a homogenous and anonymous mass of urban poor, but are real people in need of real services. They have also been able to apply pressure for improvements in security of tenure—either through temporary guarantees of residency or, better still, formal ownership. Such secure tenure gives people an incentive to improve their dwellings and is thus the crucial first step to upgrading a slum into a suburb.

Over the past six years, South Africa's government has been pursuing an active programme of housing improvement. The government quickly realised that, with the poor in the majority, providing social housing for all would be impossible. The minister for housing, Sankie Mthembi-Mahanyele, says the approach that has worked so far has been a combination of government, the private sector and the poor themselves. The poor, says Mrs Mthembi-Mahanyele, have responsibilities, and the government meets them halfway. Those with an income are expected to contribute some of it to the building of their houses. Those without are asked to contribute “sweat equity” by helping to build with their own hands.

South Africa has also transferred ownership of more than 380,000 council houses, worth more than 28 billion rand ($2.7 billion) to private individuals. With these houses as collateral for loans, owners have already started to upgrade and improve their properties. There is still a long way to go. An estimated 2m-3m more houses are needed. She adds that the government is still wrestling with financial institutions to get a better deal for the poor.

Not all governments are keen on decentralisation, and some stifle local organisations because they see them—rightly or wrongly—as a threat. UN-HABITAT, though, believes that handing more power over to city authorities and local people is a vital part of the urbanisation process.

Many people are sceptical about the usefulness of the World Urban Forum. Dr Tibaijuka says her aims for the forum are to create an “awareness of the reality of the times”, and of development strategies to deal with urbanisation. There is little doubt that economic growth will deal with the problem eventually, but sensible public policies can help to speed things up. Although the poor may, in a sense, always be with you, the destitute need not be. Urbanity and civilisation ought to be within the grasp of all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Urban air pollution

A great leap forward

May 9th 2002 | TAIYUAN
From The Economist print edition

Poor cities can afford clean air, and cannot afford dirty air

“WE WANT to turn Taiyuan into a civilised place!” So proclaims Yuan Gaosuo, deputy mayor of this grimy industrial city in the north-east of China. At first blush, this seems an odd aspiration. After all, Taiyuan and the neighbouring bits of Shanxi province are one of the earliest centres of Chinese civilisation. Architectural treasures, such as the Shuanglin Si monastery and the Jinci Si temple, abound. Wutai Shan, one of Buddhism's most sacred sites, draws visitors from all over the world.

Whatever its other deficiencies, civilisation ought thus to be the one thing that Taiyuan does not lack. Mr Yuan disagrees. When air pollution levels in China's 47 biggest cities were measured in 1999 and 2000, Taiyuan came last. “Without clean air, we simply cannot consider our city civilised,” he says. In fact, with pollution at nearly nine times the level deemed safe, Taiyuan probably had the filthiest air in the world. Uncivilised, indeed.

That embarrassing report (which merely confirmed what local people knew all along) has at least wrought some good. It has spurred the city's officials to start tackling the soot, smoke and sulphur dioxide spewing from Taiyuan's many coal-fired hearths and industrial boilers. Their motive is the same as the one driving clean-air legislation in other industrialising cities, such as London and Los Angeles, in the past. Their methods, though, are intriguingly different.

Let the market decide

Both London and Los Angeles adopted classic command-and-control measures to deal with their problems. In Britain, burning coal was banned in cities. California did not go so far as to ban cars. That would probably have caused riots on the streets (assuming Angelenos could remember how to walk on them). But the regulations imposed on car design were every bit as intrusive and prescriptive as anything dreamed up by a Comecon government.

It is something of an irony, therefore, that the city government of Taiyuan, which is located in what is, officially at least, still a communist country, should be looking to the market to solve its pollution problem. But that is exactly what it is doing: it proposes to use emissions trading in an attempt to achieve a 50% reduction in sulphur-dioxide output within five years.

In April, local and provincial officials struck a deal with the Asian Development Bank (ADB) to develop such an emissions-trading system. Permits to pollute will be issued to the worst offenders. Those permits will be tradable, so that a polluter will be able either to retain the right to release his own sulphur dioxide, or restrain his own pollution and sell the right to somebody else. By reducing the total permitted tonnage of gas each year, overall pollution levels can be reduced in the most economically efficient manner.

Taiyuan will not be the first Chinese city to experiment with sulphur-dioxide trading. Nantong has already carried out a preliminary trial with the help of Environmental Defence, an American lobby group. But Richard Morgenstern, of Resources for the Future (RFF), a think-tank (also American) that is advising Taiyuan's government, thinks that such trading is particularly suitable for the city. First, its problem is concentrated: a small number of large polluters (about two dozen) emit half the gas. Second, those firms face hugely divergent clean-up costs. According to RFF, these range from $60 to $1,200 per tonne of gas emitted. There is therefore something real to trade.

The rewards of virtue

Until recently, conventional thinking has held that poor cities such as Taiyuan cannot afford rich-world environmental standards: greenery, according to this theory, is a luxury good that comes only with wealth. Over the past few years, though, economists have realised that, besides being bad for individuals, pollution is bad for the economy. In a report that proved influential in converting China's leaders to the virtues of pollution control, the World Bank has estimated that in the late 1990s China lost between 3.5% and 7.7% of its potential economic output as a result of the health effects of pollution on the country's workforce. Similarly, Louisa and Mario Molina, who work at the Massachusetts Institute of Technology, argue that Mexico city could see benefits of perhaps $2 billion a year, if officials reduced the concentrations of particulate matter in the air by just 10%.

Once the true costs of air pollution are recognised, argues Piya Abeygunawardena of the ADB, the case for action becomes clear. He accepts that today's new megacities have a more challenging task in tackling pollution than London or Los Angeles did, since they are both bigger and poorer. But he points to several factors that make the task easier, too. One is better science. Another is hindsight: studies of past policies elsewhere can point to what works and what does not. And there is also more institutional support and money from outfits such as his bank.

Such outside support may not, however, be needed forever, for there are growing environmental movements—such as the Grupo de Cien in Mexico city and Friends of Nature in Beijing—in many developing countries. In Delhi, noisy activism by an organisation called the Centre for Science and Environment led to a recent Supreme Court ruling that forced recalcitrant government officials to scrap dirty old diesel buses in favour of cleaner ones that run on compressed natural gas. Effective pollution control certainly needs grand plans. But civilisation also needs a myriad nitty-gritty decisions.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Summer operas

Starry, starry nights

May 9th 2002
From The Economist print edition

Lebrecht

An opera lovers' guide to the best of this summer's festivals

CITY-DWELLERS, often overwhelmed by choice where arts events are concerned, don't always understand the allure of summer music festivals. Those who don't live near a major arts centre are attracted by the double feature of a visit to an interesting country or town, with the hope of some important musical event thrown in. Those who have never been, for instance, to Salzburg, Austria's top musical draw, or to Edinburgh, Munich or Aix-en-Provence, might be forgiven for feeling disappointed if the more obvious fare is not on display. Regulars and seekers after the recherché will be persuaded only by some jewel of the repertory that they are unlikely to encounter elsewhere.

This summer there is something of both on offer at some of the most attractive venues in the world. Novices will want to hear Mozart's “Don Giovanni” (conducted by Nikolaus Harnoncourt) and “Die Zauberflöte” (under Bertrand de Billy), but the cognoscenti at **Salzburg** will bypass these for two rarities, “Die Liebe der Danae” and “Der König Kandaules”.

Richard Strauss attended the dress rehearsal of “Die Liebe der Danae”, his penultimate opera, at Salzburg in 1944, but the closing in of war prevented the festival from taking place, and by the time they got around to mounting it again, in 1952, Strauss was dead. So the 50th anniversary of the first performance, with its first night on August 19th, promises to be a big event. Alexander Zemlinsky, on the other hand, was driven from Germany by the Nazis and never completed his “Der König Kandaules”, which is staged at Salzburg for the first time in a new production by Christine Mielitz, conducted by Kent Nagano, from July 28th.

Over the border in **Munich**, the hottest ticket is likely to be the new production of Stravinsky's “The Rake's Progress”, which begins on July 14th with two British singers in the main roles—Ian Bostridge as Tom and Bryn Terfel as Nick Shadow. Traditionalists will probably prefer Wagner's “Die Meistersinger von Nürnberg”, which was premiered in Munich in 1868 or “Die Walküre”.

At Wagner's own festival at **Bayreuth**, “Tannhäuser” is the only staging that is new this year, which Christian Thielemann will conduct from July 25th. There's no “Tristan und Isolde” at Bayreuth, so Wagnerians with a spirit of adventure might do better to head north to Finland, to the ancient fortress town of **Savonlinna**. Leif Segerstam is conducting a “Tristan” from July 17th, and there is a revival of one of the earliest and greatest Finnish operas—Aarre Merikanto's “Juha”, which premieres on July 10th. Staying north, **Edinburgh** has, as always, a bewildering mixture. On the opera front, the big event is “Parsifal” conducted by Claudio Abbado and directed by Peter Stein. Even Edinburgh couldn't pull this off

on its own; it's a co-production with Salzburg. But perhaps the most intriguing of the hundreds of other concerts, plays and fringe events are the Grid Iron Theatre Company's production of Douglas Maxwell's play, “Variety”, and the closing concert—Dvorak's oratorio, “Saint Ludmila”.

Further south in Britain, Aldeburgh, Glyndebourne and London with the Proms all have tradition and novelty jostling for attention. **Aldeburgh**, the festival founded by Benjamin Britten, stays safe with a series of chamber concerts entitled “Britten and Vienna”, but has some innovation in the stage premiere of Gerald Barry's “The Triumph of Beauty and Deceit”, which was originally composed for television. **Glyndebourne** will be turning away hundreds of customers trying to get into “Carmen”, which stars Anne Sofie von Otter, but the more attractive propositions are the rarities, never heard before in Sussex, “Gluck's “Iphigénie en Aulide” and Carl Maria von Weber's “Euryanthe”.

Ticket prices at all these venues are high—Salzburg charges *euro*340 ($310) for the main operas, and even in Edinburgh this year the top price is £100 ($145). For £4 standing or £6 for the cheapest seat (rising to £38 for the best in the house), as always the **BBC Promenade Concerts** at London's Royal Albert Hall offer the best value in the world. The emphasis this year is on Spanish music and the work of Sir William Walton, a British composer more admired than popular, but there are concerts covering every aspect of music, from Bach (“St Matthew Passion”) to Schoenberg (“Gurrelieder”), and from Granados (“Goyescas”) to Handel (“Israel in Egypt”). Londoners can be a bit sniffy about the Proms—they've seen it all before—but would-be music travellers might consider London as a base—the Proms are on every night of their season—with trips to Glyndebourne and some of the other regular smallerfestivals in England, such as Buxton,Garsington and Grange Park.

In France and Italy, the venues include the 13th-century abbey of **Ambronay**, north-east of Lyons, with its festival of baroque music, including appearances by Marc Minkowski and Les Musiciens du Louvre in Handel's “Giulio Cesare” (October 1st); and the annual opera evenings in the Roman theatre at **Orange**—this year is “Die Zauberflöte” (July 6th) and Gounod's “Roméo et Juliette” (July 27th). The two main attractions in the south, though, are the festival of **Aix-en-Provence** and the Rossini celebrations at **Pesaro**. Among all these festivals, Aix is the only one offering an important world premiere—Peter Eötvös's opera, “Le Balcon”, based on a play by Jean Genet, which opens on July 5th. At Pesaro, the rarity this year is Rossini's “L'Equivoco Stravagante”, which premieres on August 10th.

In America, although Cincinnati, St Louis and Charleston all have notable programmes this year, it will be **Santa Fe** in New Mexico and **Glimmerglass** in Cooperstown, New York, that will be the focus of attention. In Europe, only Aix can rival Santa Fe as the perfect combination of lovely old city and fine musical fare. As ever there is a mixture of old and new—Tchaikovsky, Mozart, Rossini and Verdi rub shoulders with a Finnish composer, Kaija Saariaho. Her troubadours' epic, “L'Amour de Loin”, for which Amin Maalouf, a Lebanese author, wrote the libretto, and which premiered to great acclaim at Salzburg two years ago, has its American opening on July 27th, starring Dawn Upshaw and Gerald Finley. Glimmerglass has a similar juxtaposition of the familiar and the novel—Mark Adamo's “Little Women”, the terrible twins “Cavalleria Rusticana” and “I Pagliacci”, and Haydn's “Orlando Paladino”.

At the end of it all, the sated traveller returns home. Years pass, but the memory remains glowing, of a song drifting into the starlit night in Aix, of an audience holding its breath in the great hall at Salzburg, or of the smell of the sea coming over the hill in Edinburgh as you rush from one tiny hall to another—in search of that unforgettable experience. The ideal of a music festival should be just what John Christie had in mind when he founded Glyndebourne in 1933. He wrote that his inclination was “to offer superb performances to people who will regard them as the chief thing in a day or week...assisted by a marvellous holiday *Festspiel* atmosphere.” A winning combination.

Festival dates and web addresses

Aix-en-Provence: July 1st-27th
festival-aix.com

Aldeburgh: June 7th-23rd
aldeburgh.co.uk

Ambronay: Sept 15th-Oct 13th
fest-ambronay.com

Bayreuth: July 25th-August 28th

bayreuther-festspiele.de

Edinburgh: August 11th-31st
eif.co.uk

Glimmerglass: July 5th-August 27th
glimmerglass.org

Glyndebourne: May 18th-August 25th
glyndebourne.com

London Proms: July 19th-Sept 14th
bbc.co.uk/proms

Munich: June 27th-July 31st
staatsoper.de

Orange: July 6th-August 3rd
choregies.asso.fr

Pesaro: August 9th-23rd
rossinioperafestival.it

Salzburg: July 27th-August 31st
salzburgfestival.com

Santa Fe: June 28th-August 24th
santafeopera.org

Savonlinna: July 5th-August 4th
operafestival.fi

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Matisse and Picasso

Double vision

May 9th 2002
From The Economist print edition

A sumptuous exhibition presents two modern masters in parallel

MEETING a friend on a Paris street one day, Matisse told him, “If I were not doing what I am doing, I would paint like Picasso.” Amazing, the friend replied: Picasso had just said the same to him about Matisse. A telling anecdote. Perhaps the two greatest modern painters of all, Henri Matisse (1869-1954) and Pablo Picasso (1881-1973), acknowledged their influence on each other more than most critics have.

Scissors, paper, metal: Picasso (left) at play with Matisse

Now “Matisse Picasso”, a dazzling show at Tate Modern in London from May 11th, allows us to judge for ourselves the interplay between the two. The chance to see so many of their homages, borrowings, variations and return shots side by side is simply not to be missed. Some grand Matisses, “Bathers with a Turtle” and “Nasturtiums with Dance II”, for example, which are not in London, are to join the show later.

Tate Modern may be one of the most hostile environments yet devised in which to see art. Yet the curators for “Matisse Picasso”, led by John Golding and Elizabeth Cowling, have done a heroic job of the hang, helped by an architect who redesigned half a floor. The show closes in London on August 18th. It then opens in Paris at the Grand Palais (September 25th-January 6th 2003) before travelling to New York's Museum of Modern Art (February 13th-May 19th).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

High fliers and motherhood

Waaah

May 9th 2002
From The Economist print edition

Woman's work, and all that

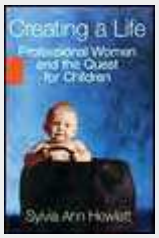
A SURPRISING number of women combine motherhood with top jobs, including Cherie Blair, barrister and wife of Britain's prime minister, and Tina Brown, the ex-*New Yorker* editor and publisher of this book. But you would never guess it from Sylvia Ann Hewlett. From beginning to end, her book is a puzzling wail about the high rate of childlessness among successful women. Is conflict between career and family news?

Ms Hewlett surveyed a sample of high-earning businesswomen and academics—large or small, she doesn't say—and found that 42% of them were still childless at the age of 40-55. Creeping non-choice, she says, is the reason: their careers take up so much energy that marriage and maternity are put off until it is too late. While top male executives tend to have spouses and babies (sometimes several of each), top women bosses often have neither.

The decline in childbearing seems to be partly related to the fact that women enjoy earning their own money and so delay the distraction that having babies tends to bring. Yet the truth is that proportionately more women become mothers today than a century ago. Then, the childless rarely had the comfort of a career and independent income to compensate. Ms Hewlett is right to warn women not to count on fertility marvels (even if her own youngest child was born when she was 51). But she is wrong to imply that corporate life cannot fit in children, if that is what you really want. Childbirth and work are nothing new.

Creating a Life: Professional Women and the Quest for Children.
By Sylvia Ann Hewlett.
Talk Miramax Books; 334 pages; $22. Published in the UK as "Baby Hunger: The New Battle for Motherhood".
Atlantic Books; £10

Creating a Life: Professional Women and the Quest for Children.
By Sylvia Ann Hewlett



Talk Miramax Books; 334 pages; $22.
Published in the UK as "Baby Hunger: The New Battle for Motherhood".
Atlantic Books; £10

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America's food industry

Lean on me

May 9th 2002
From The Economist print edition

WHEN Marion Nestle joined the editorial team of the “United States Surgeon General's Report on Nutrition and Health” in 1986, she was told that the report could not recommend that people eat less meat—indeed it should avoid warning people against any type of food for reasons of health. The task force did not want a second row of the kind that had greeted “Dietary Goals for the United States”, a 1977 publication of the National Institutes of Health, which urged Americans to “decrease consumption of meat” and eat more fruit and vegetables.

The howls in Washington from the cattlemen and other farm lobbyists that met the 1977 report were heard all the way back to the cornbelt. An angry president of the National Cattlemen's Association, Wray Finney, told the Senate's agricultural committee that such dietary goals could jeopardise the health of his industry, noting memorably that “decrease is a bad word”.

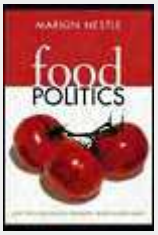
Now professor of nutrition and food studies at New York University, Ms Nestle has written a provocative and highly readable book arguing that America's agribusiness lobby has stifled the government's regulatory power, helped create a seasonless and regionless diet, and hampered the government's ability to offer sound, scientific nutritional advice. In 1998 alone, food and agricultural lobbyists spent $52m on Capitol Hill. Ms Nestle—no relation to the Nestlé food group—cites specific cases where this lobby persuaded the government to abandon straight talk when issuing dietary recommendations. A revised version of Dietary Goals, for example, struck out its initial recommendation to “decrease consumption of meat” and replaced it with the harder-to-follow suggestion that Americans should “choose meats, poultry, and fish which will reduce saturated fat intake”.

Ms Nestle also looks closely at the success of the nutritional-supplement industry in persuading the government to pass the 1994 Dietary Supplement Health and Education Act (DSHEA). This act stripped the Food and Drug Administration of its ability to regulate herbal supplements and vitamins as drugs, which meant that in America health claims for supplements could subsequently be made without scientific support. An untested herbal remedy, for example, cannot go quite so far as to claim that the product reduces symptoms of arthritis, but it can boast a label saying it maintains healthy joints. By soothing anxious Americans in this way, the supplement industry has since grown into a $15 billion enterprise

Despite the many strengths in “Food Politics”, the book has surprisingly little to say about the American food industry's influence in shaping federal farm legislation. The new American farm bill offers unprecedented subsidies that have been fashioned in large part by commodity lobbies and agribusiness. So successful have they been that American farming and food production may be about to become even more protectionist than the EU's to an extent that has not yet been fully appreciated. It's a big subject; Ms Nestle could do well to come back to it.

Food Politics: How the Food Industry Influences Nutrition and Health.
By Marion Nestle.
University of California Press; 457 pages; $29.95 and £19.95

Food Politics: How the Food Industry Influences Nutrition and Health
By Marion Nestle



University of California Press; 457 pages; $29.95 and £19.95

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

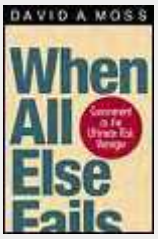
The riskholder of last resort

Where the buck stops

May 9th 2002
From The Economist print edition

DAVID MOSS, an associate professor at the Harvard Business School, offers a novel perspective on the extraordinary expansion of government. Where once it confined its remit to the bare essentials of defence, internal security and the enforcement of private-property rights, today's leviathan spreads into every corner of national life, not just by taxing and spending but also by regulating. Much of the growth, Mr Moss argues, has come from the state's unique ability to reallocate risk. Government has expanded its reach because it is the ultimate risk manager.

When All Else Fails: Government as the Ultimate Risk Manager
By David A. Moss



Harvard University Press; 464 pages; $39.95 and £27.50

Buy it at
Amazon.com
Amazon.co.uk

In a rich blend of legal, business and economic history, Mr Moss identifies three phases in the American government's expanding role in managing risk. In the 19th century, the government typically intervened in order to assist businessmen in the development of an industrial economy through measures like bankruptcy law to reduce risk for entrepreneurs. In the first half of the 20th century, the provision of greater income security for workers and pensioners came to the fore. In the third phase, after the second world war, government extended its role as risk manager still further to help consumers, to act as insurer of last resort for disaster victims and to remedy environmental blight.

In some instances, government achieved its aim by shifting risk within the private sector. For example, the legislation of the early 19th century which allowed companies to be set up with limited liability shifted a portion of default risk from shareholders to creditors. A small change, you might think, but one that allowed the mobilisation of capital to finance America's industrial revolution. In 1911, Nicholas Murray Butler, the president of Columbia University, claimed that the limited liability company outweighed even electricity as “the greatest single discovery of modern times”.

A very different example of risk-shifting occurred in the 1960s, when product liability was shifted from the consumer to the manufacturer. A legal revolution made by judges rather than politicians sought not just to shift but to reduce risk, by spurring manufacturers to make their products safer. The cost of any remaining risk to consumers from defective goods would be spread through higher prices across all buyers.

However, the characteristic form of government risk management in modern times has been to assume risk itself and thereby spread it across the entire population (of taxpayers at any rate). Mr Moss contrasts the response to two floods of the Mississippi in the last century. In 1927, the American National Red Cross carried most of the financial burden of disaster relief. In 1993, by contrast, there were few dissenting voices in Congress to a huge programme of federal assistance.

One grumbler argued, “We're basically telling people, ‘We want you to buy insurance, but if you don't, we'll bail you out anyway.’” This encapsulates one of the main reasons to be more sceptical than Mr Moss about the desirability of governments acting as insurers: moral hazard. The author appreciates that people who are insured tend to behave in a riskier manner, thus increasing risk rather than reducing it. However, he argues that government is well placed to minimise moral hazard through its powers to monitor and police individuals' behaviour. In his view, the advantages of government riskmanagement greatly outweigh itsdisadvantages.

Mr Moss's account of the state's emerging role as risk manager is also open to the accusation that it embodies a version of the Whig interpretation of history: whatever occurs in public policy must have been a good answer reached by right-minded people. Even if legislators do get it right, what was once a

solution can become a problem. A case in point is American Social Security which certainly solved the problem of pensioner poverty but has expanded beyond the imagination of its creators, generating a $9 trillion implicit debt for today's and tomorrow's working generations. Government may be the ultimate risk manager, but that very capability is riskier than this enlightening bookacknowledges.

When All Else Fails: Government as the Ultimate Risk Manager.
By David A. Moss.
Harvard University Press; 464 pages; $39.95 and £27.50

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

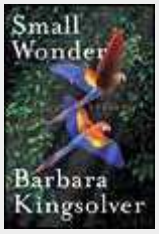
New essays

Little big voice

May 9th 2002
From The Economist print edition

GREAT calamity can sometimes call forth great profundity. Yet in its immediate aftermath, calamity more often inspires inarticulate lamentation even in a bestselling author with a distinctive voice and the best of intentions. However impassioned Barbara Kingsolver's essays in response to September 11th, her garment-rending despair overreaches in this vein: “I've felt outrage that I was sure would burn me alive”; “I wept again from my bottomless well of grief”. She wanted to give blood for the injured, but couldn't: “My hematocrit always runs too low. I can only give words. My verbal haemoglobin never seems to wane.” Such flailing, though well meant, leaves the reader awkwardly unmoved.

Small Wonder
By Barbara Kingsolver



HarperCollins; 288 pages; $23.95.
Faber and Faber; £12

Buy it at
Amazon.com
Amazon.co.uk

If a number of Ms Kingsolver's compatriots denounced her in the weeks after the attack as a “traitor, sinner, naive, liberal, peacenik, whiner” it was because she declared herself horrified by the Afghanistan campaign, as she says she has been by every military effort her country has undertaken in her lifetime. This minority viewpoint is little heard in America these days, and a voice of caution and restraint may be valuable in a polity so indignant that at times it risks descent into vengefulness and jingoism. But Ms Kingsolver's remedy for terrorism—smaller cars, home-grown produce, and a more generous foreign-aid budget that would in time make Americans internationally “beloved”—may help to explain why so few novelists serve on the National Security Council staff.

Many of the 22 essays in “Small Wonder” are unrelated to the events of last September, and when tending her own garden Ms Kingsolver is on solid ground. Trained as a biologist, she has strong and cogent environmentalist convictions, and she practices what she preaches. The pieces about her verdant vegetable patch are enthusiastic enough to force the most die-hard high-rise dweller to get out his trowel. Her reflections about nature—like her urging that we learn to love flora and fauna without having to own them—are persuasive and thoughtful.

Reuters

Saying it with flowers

Nevertheless, the collection is permeated with a stern earnestness that belies the lighter touch of Ms Kingsolver's accomplished commercial novels, the best known of which is “The Poisonwood Bible”, about a family's missionary trip to Africa that goes horribly wrong. In fact, her chiding, sermonic tone can echo Poisonwood's killjoy Baptist preacher, railing at the natives to put their shirts on. Further, the relentless first-person—“I thought”, “I believe”—can obfuscate her subject matter, and feels amateurish.

In all, the essay may not best suit Ms Kingsolver's gifts, for in non-fiction many of her ideas are fatally simplistic. In denying outright that she is naive, she protests too much. She unquestioningly buys the European line that the banana import controversy has nothing to do with trade protectionism. She claims that with more artful diplomacy America could manage with a defence budget the size of Iceland's. Of homelessness—notoriously aggravated by mental illness and substance abuse—she asserts: “The problem is not complicated.” Yet it is heartening too to see an author determined to take positive lessons from dark times. Perhaps the crusading optimism that powers these uneven essays will launch more consistently affecting fiction in future.

Small Wonder.

By Barbara Kingsolver.
HarperCollins; 288 pages; $23.95.
Faber and Faber; £12

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Barbara Castle

May 9th 2002
From The Economist print edition

Barbara Anne Castle, a British socialist, died on May 3rd, aged 91

Reuters

BRITAIN has experienced two attempts at revolution in modern times. The more famous one was in 1649. A republic was proclaimed. The king was executed. The revolution fizzled out in 1660 when the monarchy was restored, albeit with fewer powers. The other stab at revolution was in 1945, when to the surprise of many a government was elected that promised to make Britain a socialist state. Barbara Castle was among the eager young politicians who entered Parliament in the first post-war election, their minds aflame with radical ideas, proclaiming a “new dawn” in politics.

This was the first time since the Labour Party had been founded in 1900 that it had won a clear majority; indeed it had all but obliterated the opposition. Historians are still divided over why Winston Churchill, the Conservative leader, had not been rewarded with a further term in office for guiding Britain to victory. One possible reason, humbling for those of the “new dawn” school, was that the millions of voters still in the armed forces believed that Labour would return them to civilian life more quickly than the Tories would.

Still, new dawn or not, the important thing for Mrs Castle and her colleagues was that they were in power. The main utilities were taken over by the state: electricity, gas, railways and ports, as well as much private industry including coal and steel. A welfare system was put in place, promising to take care of everyone “from womb to tomb”, as it was put at the time. The government began to dismantle Britain's empire. India, the jewel in the crown, was one of the first possessions to go.

Even critics of the class of 1945 remain slightly amazed at its ambition. Britain was broke after the war, owing huge amounts of money, mainly to the United States, and many of the Labour leaders were weary, having served in the wartime coalition government. In the Labour pantheon Clement Attlee the prime minister, Ernest Bevin the foreign secretary and Stafford Cripps the chancellor of the exchequer, have attained mythical status. Mrs Castle had to wait for a later administration to rise to the top, but she too was to become sentimentally identified with that extraordinary time.

A little femininity

Like many politicians of a revolutionary turn of mind, Barbara Castle was of the middle class. Her father was a tax inspector who taught himself classical Greek and in his spare time edited a socialist newspaper. She was educated at a grammar school, a middle-class institution later abhorred by Labour as “selective”, and won a place at Oxford. She gained a poor degree, excusing herself that she had been too busy with politics to study well.

The 1930s were a miserable time for a socialist. The Tories seemed destined to govern forever. But Mrs Castle was taken under the wing of Stafford Cripps, a wealthy socialist lawyer. When Labour came to power in 1945 Cripps made Mrs Castle his parliamentary aide, her first step on the ladder to power. Men were attracted to her. Some loved her. “In my political life I always found men vulnerable to a little femininity,” she said. Ted Castle, a clever journalist, put aside his own political ambitions to support her. They were married for 34 years.

The Attlee government was defeated in 1951, and Labour had to wait until 1964 for another shot at power. Mrs Castle had used the years out of power to promote herself as a true custodian of British socialism. Even her hair was red. She had helped Harold Wilson to become leader of the party and the new prime minister. In his two administrations he gave her a succession of jobs that kept her in the

public eye: overseas aid, transport, employment and health. It looks an impressive list. In taking on a largely male world, the only woman to do better was Margaret Thatcher.

Yet obituary writers in British newspapers, most of them kind to Mrs Castle's memory, have been hard put to point to accomplishments of hers that have endured. Several writers have mentioned the breath test given to drivers suspected of being drunk, introduced when she was in charge of transport. She was a fierce monitor of conduct on the roads, although she herself never learnt to drive. Historians are grateful for her published diaries, which record in remarkable detail what happened in supposedly secret cabinet meetings. Mrs Castle took down the often angry exchanges in shorthand, learnt when she was young in order to get a job on a local newspaper.

She accepted membership of the House of Lords, although good socialists sought its abolition. She became a member of the European Parliament, having previously attacked Britain's links with Europe. She could not resist a forum. “I am a propagandist,” she said. She remained a compelling presence all her life. She seemed undismayed that her propaganda was largely ignored by the leaders of the present Labour government, hardly a comrade among them. The edifice of the 1945-51 government has largely been dismantled. Even its famous welfare system has been found wanting. But for true believers, what mattered was that Barbara Castle continued to stand for that seductive, if self-contradictory, idea, British socialism.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 9th 2002
From The Economist print edition

America's unemployment rate rose to 6.0% in April, up from 5.7% in March. But workers who have kept their jobs are getting higher pay: wages rose by 3.4% in the year to April.

According to the Ifo research institute, business confidence in the **euro area** improved in April to levels not seen since early 2001. As economic activity picks up, so have producer prices, which rose by 0.4% in March, but have declined by 0.8% for the year. Unemployment in **Germany** held steady at 9.6% in April, compared with 9.4% a year ago. Germany's industrial output suffered an unexpected fall in March, dropping by 0.8%, compared with an expected rise of 0.4%. Industrial output fell elsewhere in Europe: by 2.0% in **the Netherlands** and by 9.3% in **Spain** in the year to March, and by 0.2% in **Austria** in the year to February.

Australia raised its interest rates by a quarter-point to 4.5%, following tightening by Canada, Sweden and New Zealand, in response to the recovery in the world economy.

Switzerland, bucking the global trend of rising interest rates, lowered rates by half a point, citing the perils of a rising Swiss franc for its nascent economic recovery. Unemployment edged down to 2.5% in April from 2.6% in March.

Britain's industrial production fell by 5.9% in the year to March, its biggest decline since 1981.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

May 9th 2002
From The Economist print edition

% change at annual rate

	GDP 1 qtr	GDP 1 year		The Economist poll GDP forecasts 2002	2003	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 5.2	+ 4.1	Q4	+ 3.8	+ 3.9	+ 2.5	Q4	+ 4.8	Q4	6.3	Apr	6.7
Austria	– 0.7	– 0.4	Q4	+ 1.3	+ 2.7	– 0.2	Feb	+ 0.7	Jan	4.0	Mar	3.4
Belgium	– 0.8	+ 0.1	Q4	+ 1.4	+ 3.1	– 6.5	Feb	+ 6.6	Feb	10.5	Apr*	10.2
Britain	+ 0.3	+ 1.0	Q1	+ 1.9	+ 2.9	– 5.9	Mar	+ 5.7	Mar	5.1	Feb†	5.2
Canada	+ 2.0	+ 0.9	Q4	+ 2.7	+ 3.5	– 0.8	Feb	+ 6.6	Feb	7.7	Mar*	7.0
Denmark	+ 0.7	+ 0.7	Q4	+ 1.6	+ 2.5	nil	Mar	+ 2.1	Feb	5.0	Mar	5.4
France	– 1.4	+ 0.5	Q4	+ 1.5	+ 2.9	– 0.6	Feb	– 0.4	Feb	9.1	Mar	8.7
Germany	– 1.0	– 0.1	Q4	+ 1.0	+ 2.6	– 3.8	Mar	– 1.1	Feb	9.6	Apr**	9.4
Italy	– 0.8	+ 0.7	Q4	+ 1.4	+ 2.9	– 3.0	Feb	– 0.4	Feb	9.0	Jan	9.8
Japan	– 4.8	– 1.9	Q4	– 1.0	+ 1.1	–10.0	Mar	– 4.6	Feb	5.2	Mar	4.7
Netherlands	nil	+ 0.4	Q4	+ 1.5	+ 3.0	– 2.0	Mar	– 0.7	Nov	2.2	Mar§	2.2
Spain	+ 0.7	+ 2.3	Q4	+ 2.1	+ 3.3	– 9.3	Mar	na		12.9	Mar	13.1
Sweden	+ 1.4	+ 1.1	Q4	+ 1.8	+ 3.0	– 1.7	Feb	+ 2.4	Feb	3.8	Mar*	3.9
Switzerland	+ 0.1	+ 0.4	Q4	+ 1.1	+ 2.3	– 1.0	Q4	+ 3.8	Feb	2.5	Apr*	1.7
United States	+ 5.8	+ 1.6	Q1	+ 2.8	+ 3.5	– 2.9	Mar	+ 6.1	Mar	6.0	Apr	4.5
Euro area	– 0.2	+ 0.6	Q4	+ 1.3	+ 2.9	– 3.3	Feb	+ 1.3	Feb	8.4	Mar	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	– 1.8	– 0.9	Q4	na	na	– 4.9	Mar	+ 1.3	Jan	9.5	Mar*	9.6
Greece	na	+ 3.7	Q4	na	na	– 0.8	Jan	+ 8.4	Jan	na		na
Iceland	na	+ 3.1	2001	na	na	+ 2.5	2000	na		2.7	Mar*	1.5
Ireland	na	nil	Q4	na	na	– 1.6	Feb	+ 5.0	Feb	4.3	Mar	3.6
Luxembourg	na	+ 5.1	2001	na	na	– 3.3	Jan	+ 5.4	Dec	2.9	Feb	2.7
New Zealand	+ 2.6	+ 2.9	Q4	na	na	+ 3.5	Q4	+ 7.4	Q4	5.3	Q1	5.4
Norway	+ 1.0	+ 1.8	Q4	na	na	– 2.5	Mar	+ 2.9	Mar	3.7	Q1	3.7
Portugal	+ 1.8	+ 1.0	Q4	na	na	+ 2.3	Mar	+ 1.1	Feb	4.1	Q4*	3.8

*Not seasonally adjusted. †Dec-Feb; claimant count rate 3.1% in Mar. §Jan-Mar. **EU harmonised rate 8.1% in Apr.
Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

May 9th 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.9	Q1	+ 6.0	+ 2.5	+ 2.5	+ 0.5	Q1	+ 5.2	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Mar	+ 2.7	+ 1.7	+ 1.7	– 0.5	Apr	+ 2.9	+ 2.4	Mar	+ 2.6
Belgium	+ 1.8	Apr	+ 2.8	+ 1.9	+ 1.7	+ 0.4	Mar	+ 3.2	+ 3.1	Q1	+ 1.9
Britain	+ 1.3	Mar	+ 2.3	+ 2.1	+ 2.5	– 0.3	Mar	+ 1.0	+ 1.9	Feb	+ 5.4
Canada	+ 1.8	Mar	+ 2.5	+ 1.5	+ 2.0	– 1.2	Mar	+ 2.4	+ 3.3	Feb	+ 0.3
Denmark	+ 2.6	Mar	+ 2.3	+ 2.1	+ 2.1	+ 0.8	Mar	+ 3.0	+ 4.1	Q4	+ 3.8
France	+ 2.1	Mar	+ 1.3	+ 1.6	+ 1.5	– 0.7	Mar	+ 2.9	+ 4.1	Q4	+ 5.0
Germany	+ 1.6	Apr	+ 2.9	+ 1.5	+ 1.4	nil	Mar	+ 3.3	+ 2.3	Feb	+ 2.4
Italy	+ 2.5	Mar	+ 2.8	+ 2.0	+ 2.0	– 1.3	Mar	+ 4.2	+ 3.2	Mar	+ 2.0
Japan	– 1.2	Mar	– 0.7	– 1.0	– 0.6	– 1.0	Mar	+ 1.0	– 1.0	Mar	+ 0.6
Netherlands	+ 3.6	Mar	+ 4.6	+ 3.3	+ 2.5	– 1.8	Mar	+ 5.7	+ 3.8	Mar	+ 4.2
Spain	+ 3.2	Mar	+ 3.9	+ 2.5	+ 2.4	nil	Mar	+ 3.2	+ 3.7	Q4	na
Sweden	+ 2.9	Mar	+ 1.9	+ 2.4	+ 2.1	– 0.4	Mar	+ 2.6	+ 2.6	Feb	+ 2.8
Switzerland	+ 1.1	Apr	+ 1.2	+ 0.7	+ 1.1	– 1.3	Mar	+ 0.5	+ 1.3	2000	+ 0.3
United States	+ 1.5	Mar	+ 2.9	+ 1.5	+ 2.3	– 1.4	Mar	+ 3.0	+ 3.4	Apr	+ 4.3
Euro area	+ 2.2	Apr	+ 2.9	+ 1.9	+ 1.7	– 0.8	Mar	+ 4.2	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Mar	+ 2.8	na	na	– 0.8	Mar	+ 2.1	+ 4.3	Q4	+ 5.0
Greece	+ 4.0	Mar	+ 3.0	na	na	+ 2.8	Feb	+ 4.8	na		na
Iceland	+ 7.5	Apr	+ 4.5	na	na	+ 8.8	Apr	+ 4.2	+ 8.7	Mar	+ 9.2
Ireland	+ 4.8	Mar	+ 5.4	na	na	+ 2.3	Feb	+ 3.5	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.8	na	na	– 2.5	Feb	+ 4.5	+ 2.4	Jan	+ 7.6
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 1.8	Q4	+10.7	+ 2.2	Q4	+ 1.6
Norway	+ 1.0	Mar	+ 3.7	na	na	– 4.5	Mar	– 0.1	+ 4.5	Q4	+ 4.3
Portugal	+ 3.2	Mar	+ 5.1	na	na	– 5.0	Mar	+ 4.7	+ 2.4	Apr	na

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economic forecasts

May 9th 2002
From The Economist print edition

The Economist poll of forecasters, May averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2002	2003	2002	2003	2002	2003	2002	2003
Australia	2.8/4.5	3.3/4.4	3.8	3.9	2.5	2.5 (2.4)	−3.6(−3.5)	−3.7
Austria	1.1/1.7	2.1/3.3	1.3 (1.2)	2.7 (2.6)	1.7 (1.6)	1.7	−2.2	−2.0
Belgium	0.8/2.6	2.7/3.9	1.4 (1.3)	3.1 (2.9)	1.9 (1.8)	1.7	4.8	4.8
Britain	1.6/2.3	2.5/3.5	1.9	2.9	2.1	2.5	−2.1(−1.9)	−2.1 (−1.9)
Canada	1.7/3.3	3.0/4.9	2.7 (2.3)	3.5	1.5 (1.3)	2.0 (2.1)	2.1 (1.9)	2.3 (2.1)
Denmark	1.3/1.9	2.0/3.0	1.6 (1.5)	2.5 (2.4)	2.1 (1.9)	2.1 (2.0)	2.2 (2.5)	2.0 (2.3)
France	1.2/1.8	2.5/3.5	1.5	2.9	1.6 (1.4)	1.5	1.7 (1.8)	1.7
Germany	0.6/1.6	1.8/3.7	1.0 (0.9)	2.6 (2.5)	1.5 (1.4)	1.4	0.4 (0.3)	0.4
Italy	1.0/1.8	2.0/3.6	1.4 (1.3)	2.9	2.0 (1.9)	2.0 (1.9)	0.1 nil	nil (−0.1)
Japan	−1.7/0.2	0.3/1.8	−1.0	1.1	−1.0 (−0.8)	−0.6 (−0.5)	2.5	2.6 (2.5)
Netherlands	1.1/1.9	2.5/3.8	1.5 (1.4)	3.0 (2.7)	3.3 (2.9)	2.5 (2.3)	3.7	4.0
Spain	1.9/2.5	2.8/4.0	2.1 (2.0)	3.3 (3.2)	2.5 (2.3)	2.4	−2.2(−2.1)	−1.8
Sweden	1.4/2.4	2.7/3.2	1.8 (1.7)	3.0	2.4 (2.2)	2.1 (2.0)	2.5 (2.3)	2.8 (2.6)
Switzerland	0.5/1.9	1.6/2.9	1.1 (1.0)	2.3 (2.2)	0.7 (0.6)	1.1	9.5 (9.4)	9.6 (9.5)
United States	2.2/3.2	2.3/4.3	2.8 (2.5)	3.5	1.5 (1.4)	2.3 (2.2)	−4.2	−4.4 (−4.5)
Euro area	1.0/1.6	2.4/3.7	1.3	2.9 (2.8)	1.9 (1.7)	1.7	0.3	0.4

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordbanken, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets. This month the panel has again revised upwards its forecast for growth in most countries. America's GDP is now expected to rise by 2.8% in 2002, faster than the 1.3% projected for the euro area. The outlook for growth in Canada is notably rosier. The panel has raised its inflation forecasts for most countries. In the euro area, consumer prices are now projected to rise by 1.9% this year, with the Netherlands expected to see the biggest increase, 3.3%. Japan's deflationary pressures, however, are mounting rather than receding.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

May 9th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 8th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.0	+13.9	Mar	4.77	4.77	5.21	6.12	5.72	7.00
Britain	+ 7.2	+ 5.4	Mar	4.06	5.19	4.68	5.20	4.92	6.09
Canada	+11.7	+ 5.3	Mar	2.46	4.30	4.08	5.66	5.66	7.02
Denmark	+ 5.8	+ 5.3	Mar	3.70	5.22	4.39	5.33	5.15	7.01
Japan	+24.4	+ 3.8	Mar	0.03	0.02	0.02	1.36	1.27	1.46
Sweden	+ 8.8	+ 6.2	Dec	4.31	4.00	5.08	5.61	4.99	5.70
Switzerland	+ 6.6	+ 3.1	Mar	1.28	3.19	2.48	3.28	3.31	3.94
United States	+ 7.0	+10.1	Mar	1.82	3.95	3.30	5.21	5.17	6.86
Euro area†	+ 5.8	+ 7.3	Mar	3.42	4.79	4.10	5.09	4.87	5.94

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.67%, Japan No.238 1.37%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

May 9th 2002
From The Economist print edition

1995=100

	Apr 30th	May 7th*	% change on one month	% change on one year
Dollar index				
All items	68.7	68.0	– 1.7	– 5.0
Food	68.6	67.5	– 2.6	– 1.5
Industrials				
All	68.9	68.7	– 0.4	– 9.3
Nfa†	68.0	69.3	– 0.1	– 6.8
Metals	69.7	68.1	– 0.7	–11.4
Sterling index				
All items	74.4	73.2	– 3.9	– 7.1
Euro index				
All items	100.3	98.0	– 5.6	– 7.8
Yen index				
All items	93.9	92.5	– 4.1	– 0.2
Gold				
$ per oz	307.70	312.40	+ 4.5	+17.7
West Texas Intermediate				
$ per barrel	26.85	26.98	+ 5.5	– 2.4

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

May 9th 2002
From The Economist print edition

Market indices

	May 8th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,287.4	3,440.0	3,273.7	– 0.6	– 4.4	– 2.2	+ 3.6
Austria (ATX)	1,342.0	1,357.2	1,114.4	– 0.2	–22.7	+17.7	+20.1
Belgium (Bel 20)	2,839.8	2,899.8	2,622.4	+ 1.0	–22.9	+ 2.1	+ 4.2
Britain (FTSE 100)	5,209.1	5,323.8	5,024.1	+ 1.6	–24.8	– 0.2	+ 0.1
Canada (Toronto Composite)	7,707.8	7,958.1	7,418.1	+ 0.8	–32.3	+ 0.3	+ 1.8
Denmark (KBX)	225.9	233.4	213.3	+ 3.2	–25.1	+ 0.5	+ 2.5
France (SBF 250)	2,921.6	3,081.9	2,782.5	– 1.1	–33.5	– 2.0	– 0.0
(CAC 40)	4,404.0	4,688.0	4,239.0	– 1.3	–36.4	– 4.8	– 2.8
Germany (Xetra DAX)	5,028.6	5,462.6	4,745.6	– 0.3	–37.6	– 2.5	– 0.6
Italy (BCI)	1,434.8	1,513.0	1,344.9	– 1.9	–34.3	+ 0.1	+ 2.1
Japan (Nikkei 225)	11,520.8	11,919.3	9,420.9	– 0.3	–70.4	+ 9.3	+11.4
(Topix)	1,081.8	1,125.4	922.5	– 0.5	–62.5	+ 4.8	+ 6.8
Netherlands (AEX)	498.1	531.2	478.3	– 2.6	–29.0	– 1.7	+ 0.3
Spain (Madrid SE)	823.1	848.1	773.2	– 0.6	–28.2	– 0.2	+ 1.9
Sweden (Affarsvarlden Gen)	204.9	236.8	201.2	+ 0.4	–48.8	–11.5	– 9.4
Switzerland (Swiss Market)	6,591.9	6,694.1	6,105.2	+ 0.5	–21.6	+ 2.7	+ 6.4
United States (DJIA)	10,141.8	10,635.3	9,618.2	+ 0.8	–13.5	+ 1.2	+ 1.2
(S&P 500)	1,088.4	1,172.5	1,049.5	+ 0.2	–28.7	– 5.2	– 5.2
(Nasdaq Comp)	1,696.3	2,059.4	1,573.8	+ 1.1	–66.4	–13.0	–13.0
Europe (FTSE Eurotop 300)*	1,222.0	1,279.7	1,185.5	+ 0.0	–28.3	– 3.1	– 1.1
Euro area (FTSE Ebloc 100)*	1,050.7	1,125.1	1,013.0	– 1.0	–32.2	– 5.5	– 3.6
World (MSCI)†	975.9	1,024.4	937.0	+ 0.1	–32.6	na	– 2.7
World bond market (Salomon)‡	448.6	451.6	430.3	+ 0.1	– 2.4	na	+ 2.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

May 9th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† May 8th	Exchange rate trade-weighted† year ago	Currency units per $ May 8th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	+ 1.5 Mar	− 9.2 Q4	− 3.6	− 3.7	76.0	73.2	1.85	1.91	2.69	1.68	1.44	0.1
Austria	− 3.3 Jan	− 3.6 Feb	− 2.2	− 2.0	100.3	100.2	1.10	1.13	1.61	–	0.86	-0.3
Belgium	+ 10.4 Feb	+ 13.0 Dec	+ 4.8	+ 4.8	99.3	98.8	1.10	1.13	1.61	–	0.86	nil
Britain	− 47.2 Feb	− 25.1 Q4	− 2.1	− 2.1	106.2	105.5	0.69	0.70	–	0.62	0.53	-0.8
Canada	+ 37.6 Feb	+ 18.9 Q4	+ 2.1	+ 2.3	76.5	78.1	1.57	1.54	2.29	1.43	1.22	1.0
Denmark	+ 7.2 Feb	+ 4.1 Feb	+ 2.2	+ 2.0	102.4	101.6	8.18	8.44	11.9	7.43	6.36	2.2
France	+ 4.5 Feb	+ 24.4 Feb	+ 1.7	+ 1.7	101.9	101.5	1.10	1.13	1.61	–	0.86	-2.0
Germany	+ 90.3 Feb	+ 15.8 Feb	+ 0.4	+ 0.4	99.0	98.4	1.10	1.13	1.61	–	0.86	-2.8
Italy	+ 8.5 Feb	+ 1.7 Jan	+ 0.1	nil	72.7	72.4	1.10	1.13	1.61	–	0.86	-1.4
Japan	+ 70.1 Feb	+ 90.0 Feb	+ 2.5	+ 2.6	130.0	138.6	129	122	188	117	–	-8.0
Netherlands	+ 22.4 Feb	+ 11.8 Q4	+ 3.7	+ 4.0	98.2	97.7	1.10	1.13	1.61	–	0.86	0.1
Spain	− 38.3 Jan	− 15.1 Jan	− 2.2	− 1.8	74.4	74.1	1.10	1.13	1.61	–	0.86	-0.3
Sweden	+ 13.3 Mar	+ 7.4 Feb	+ 2.5	+ 2.8	75.2	76.6	10.2	10.3	15.0	9.31	7.97	2.1
Switzerland	+ 1.8 Mar	+ 24.6 Q4	+ 9.5	+ 9.6	113.9	106.8	1.60	1.74	2.34	1.46	1.25	na
United States	−423.2 Feb	−417.4 Q4	− 4.2	− 4.4	120.0	119.1	–	–	1.46	0.91	0.78	-1.0
Euro area	+ 50.3 Feb	− 5.8 Feb	+ 0.3	+ 0.4	79.4	78.4	1.10	1.13	1.61	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.4 Feb	+ 7.5 Feb	na	na	78.5	77.9	1.10	1.13	1.61	–	0.86	3.2
Greece	− 19.1 Dec**	− 7.2 Dec	na	na	57.6	57.4	1.10	1.13	1.61	–	0.86	0.4
Iceland	+ 0.1 Mar	− 0.4 Q4	na	na	na	na	91.8	97.1	134	83.4	71.4	-0.5
Ireland	+ 32.2 Feb	− 1.1 Q4	na	na	87.8	87.1	1.10	1.13	1.61	–	0.86	0.1
Luxembourg	− 2.9 Feb	+ 0.9 Q4	na	na	99.3	98.8	1.10	1.13	1.61	–	0.86	2.2
New Zealand	+ 0.3 Mar	− 1.6 Q4	na	na	85.8	80.7	2.22	2.36	3.24	2.02	1.73	0.1
Norway	+ 24.6 Mar	+ 22.2 Feb	na	na	101.6	94.7	8.35	9.11	12.2	7.58	6.49	14.0
Portugal	− 13.7 Jan	− 10.1 Feb	na	na	89.5	89.2	1.10	1.13	1.61	–	0.86	-2.4

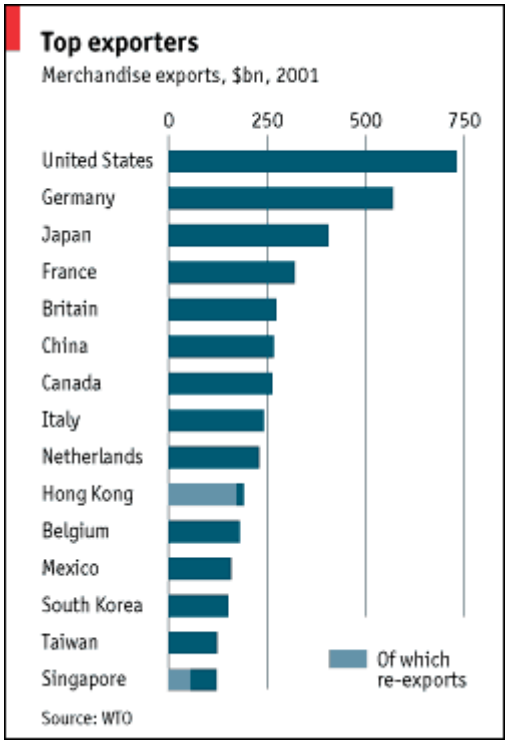
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. **Corrected.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Top exporters

May 9th 2002
From The Economist print edition



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 9th 2002
From The Economist print edition

Industrial production in **Turkey** soared by 18.7% in the year to March. The unexpectedly strong performance raised hopes that the economy may grow by 3% in 2002, after slumping by 9.4% last year. The 3% growth target forms part of a programme of reforms agreed with the International Monetary Fund in return for a $16 billion loan.

Inflation is picking up rapidly in **Argentina**: prices rose by 18.4% in the year to April. The surge in inflation is being driven largely by the sharp drop in the peso since January. In **Venezuela**, where the bolivar has also been devalued, inflation rose to 18.7% in the year to April.

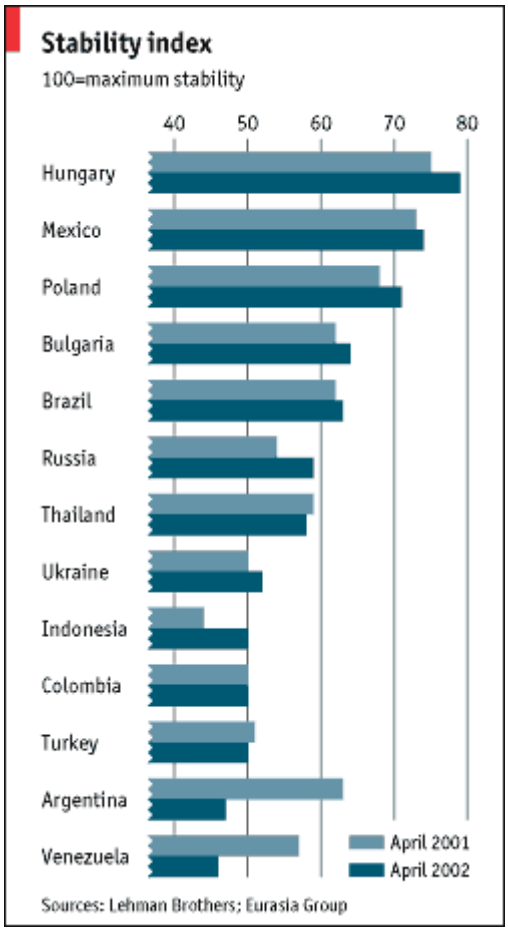
Industrial output in **Hungary** rose by 4.2% in the year to March.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stability index

May 9th 2002
From The Economist print edition

Hungary is the most stable emerging economy of those measured by an index produced by Lehman Brothers and Eurasia Group, a firm that analyses political risk. The index assesses a country's ability to withstand and avoid generating crises. Hungary's score is 79, of a possible 100. Mexico, new to the index, comes second with 74. Argentina, plagued by economic crisis, and Venezuela, hit by coup and counter-coup, score lowest. Russia, Ukraine and Indonesia are among the countries that have become stabler in the past year.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

May 9th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+10.9	Mar	– 0.6	Mar	+25.5	Mar	+21.2	2001§	226.7	Feb
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.2	Mar	– 9.6	Mar	+12.0	Q4	110.9	Apr
India	+ 6.3	Q4	+ 2.3	Feb	+ 5.2	Mar	– 5.9	Mar	– 0.1	Q4	51.1	Mar
Indonesia	+ 4.1	Q4	– 2.2	Q3	+13.3	Apr	+26.0	Mar	+ 8.4	Q3	27.2	Mar
Malaysia	– 0.5	Q4	– 3.5	Mar	+ 2.1	Mar	+14.1	Mar	+ 6.9	Q4	31.5	Mar
Philippines	+ 3.8	Q4	+ 2.2	Feb‡	+ 3.6	Apr	+ 2.6	Feb	+ 4.9	Jan	14.9	Mar
Singapore	– 2.6	Q1	– 2.9	Mar	– 0.9	Mar	+ 5.3	Mar	+17.9	Q4	75.9	Mar
South Korea	+ 3.7	Q4	– 2.6	Feb	+ 2.5	Apr	+ 9.3	Apr	+ 7.6	Mar	106.0	Mar
Taiwan	– 2.7	Q4	+ 0.4	Mar	+ 0.2	Apr	+18.3	Apr	+19.0	Q4	132.9	Apr
Thailand	+ 2.1	Q4	+ 8.4	Mar	+ 0.4	Apr	+ 3.2	Mar	+ 6.6	Mar	32.9	Mar
Argentina	–10.7	Q4	–16.7	Mar	+18.4	Apr	+ 9.8	mar	– 4.4	Q4	12.8	Mar
Brazil	– 0.7	Q4	– 0.7	Mar	+ 9.7	Mar	+ 4.7	Apr	–19.8	Mar	36.7	Mar
Chile	+ 1.7	Q4	– 2.1	Mar	+ 2.5	Apr	+ 1.5	Mar	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 0.5	Feb	+ 5.9	Mar	+ 0.4	Feb	– 1.7	Q4	10.1	Mar
Mexico	– 1.6	Q4	– 1.8	Feb	+ 4.7	Mar	– 9.4	Mar	–17.1	Q4	46.2	Mar
Peru	+ 1.6	Mar	+ 0.3	Feb	+ 0.1	Apr	– 0.1	Feb	– 1.1	Q4	8.3	Mar
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+18.7	Apr	+ 9.8	Q4	+ 4.4	Q4	6.6	Feb
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.4	Jan	– 8.6	Dec	– 0.1	Q4	12.6	Jan
Israel	– 3.4	Q4	– 6.9	Feb	+ 4.3	Mar	– 6.5	Mar	– 1.7	Q4	24.0	Apr
South Africa	+ 1.8	Q4	+ 3.9	Mar	+ 6.6	Mar	+ 3.8	Mar	– 0.2	Q4	6.0	Mar
Turkey	–10.4	Q4	+18.7	Mar	+52.7	Apr	– 7.4	Feb	+ 4.2	Jan	20.5	Mar
Czech Republic	+ 3.2	Q4	+ 5.8	Feb	+ 3.7	Mar	– 2.7	Mar	– 2.7	Q4	14.6	Mar
Hungary	+ 3.3	Q4	+ 4.2	Mar	+ 5.9	Mar	– 2.2	Mar	– 1.4	Mar	9.7	Mar
Poland	+ 0.3	Q4	– 3.2	Mar	+ 3.3	Mar	–11.1	Mar	– 7.2	Mar	26.1	Mar
Russia	+ 4.3	Q4	+ 3.7	Mar	+16.3	Apr	+45.8	Feb	+35.1	Q4	33.2	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 6.9	Dec	+ 4.6	Feb	– 1.0	Mar	+ 0.3	2001†	4.0	Mar
Saudi Arabia	+ 1.7	2001§	na		nil	Feb	+37.5	2001§	+ 8.3	2001	17.6	Mar

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

May 9th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 8th		Dec 31st 2001	
	May 8th	year ago	May 8th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	na	1,725.9‡	−0.9	+ 0.8	+ 0.8
Hong Kong	7.80	7.80	11.4	1.92	11,768.3	+2.4	+ 3.3	+ 3.2
India	48.9	46.8	71.4	6.13	3,435.1	+2.9	+ 5.3	+ 3.8
Indonesia	9,290	11,075	13,552	16.96	547.7	+2.4	+ 39.7	+ 56.4
Malaysia	3.80	3.80	5.54	3.25	794.5	+0.1	+ 14.1	+ 14.1
Philippines	49.8	50.7	72.7	6.13	1,345.8	−0.0	+ 15.2	+ 19.3
Singapore	1.81	1.82	2.64	0.81	1,735.4	+0.6	+ 6.9	+ 9.1
South Korea	1,280	1,302	1,868	4.80	844.7	+0.3	+ 21.8	+ 24.9
Taiwan	34.5	32.9	50.4	2.55	5,711.5	−5.8	+ 2.9	+ 4.2
Thailand	42.9	45.6	62.6	2.13	382.5	+3.0	+ 25.9	+ 29.7
Argentina	3.20	1.00	4.67	na	398.9	+2.9	+ 35.0	− 57.8
Brazil	2.43	2.26	3.54	18.37	12,616.9	−3.6	− 7.1	− 11.6
Chile	653	604	953	4.32	5,229.2	+0.1	− 3.1	− 1.9
Colombia	2,285	2,361	3,333	9.75	1,126.4	−0.5	+ 5.2	+ 4.9
Mexico	9.42	9.22	13.7	6.58	7,517.8	+0.5	+ 18.0	+ 14.8
Peru	3.43	3.61	5.00	2.62	1,232.0	−2.4	+ 4.8	+ 5.2
Venezuela	924	713	1,347	37.60	6,607.7	−1.6	+ 0.6	− 17.5
Egypt	4.60	3.89	6.71	7.20	5,363.3	+2.0	+ 1.7	+ 1.2
Israel	4.90	4.13	7.14	2.73	375.6	+2.3	− 15.9	− 24.2
South Africa	10.3	7.94	15.0	11.45	11,498.4	+4.2	+ 10.1	+ 28.4
Turkey	1,377,500	1,152,500	2,009,497	43.00	12,117.2	+5.6	− 12.1	− 7.1
Czech Republic	33.5	38.9	48.9	3.82	465.1‡	+3.7	+ 17.9	+ 25.1
Hungary	268	292	391	8.53	8,948.9	+3.2	+ 25.5	+ 28.7
Poland	3.99	4.00	5.83	9.94	14,936.0	−1.2	+ 7.3	+ 6.2
Russia	31.2	29.0	45.6	23.00	381.4§	−1.2	+ 50.2	+ 46.7
EMF (MSCI)*	1.00	1.00	1.46	na	354.1	+0.4	na	+ 11.6
EMBI+†	1.00	1.00	1.46	na	214.3	−0.5	na	+ 7.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. § In $ terms. ‡May 7th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.